

Government Ownership of Railways

Considered as the Next Great Step in
American Progress

By

Anthony Van Wagenen

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PREFACE

ONE object of this book is to call public attention to the world-wide triumph of government ownership of railways. So complete is this triumph that the world may now be said to be upon a government-ownership basis. In four-fifths of the nations of the world, government ownership is the rule and private ownership the exception; while out of the fifty considerable nations of the earth, there are only four in which government ownership does not prevail to a greater or less extent. This book is a plain history of the growth of the system of public ownership from the time when the Government of Belgium pioneered in railroading with private capital to this day of the general adoption of nationalization. The argument herein is meant for the general reader. It is burdened with few tables or statistics, and the author hopes that, while not lacking in clarity, the book is so written that the busy man may be able to read it

restfully. No claim as to exhaustiveness is made, but it is hoped that no omissions will be found which will vitiate the conclusions presented. The author believes that the time is ripe for public discussion of this subject, and he hopes that this book may stimulate such discussion. Events of the most unquestioned importance and intense interest relating to the matter are occurring frequently, about which little is said in the press, and nothing at all in public discussion.

Seven years ago, in a speech at Waterloo, Iowa, the writer first publicly advocated government ownership of railways for the United States. That the minds of the people are awake to the subject is proven by the surprising effect of this utterance in stimulating debate and awakening enthusiasm in Iowa and the Middle West. Subsequent events of a political nature have tended to obscure the subject, but in the writer's opinion it cannot be much longer kept in the background. The inability of private ownership to meet the multiplying demands of the nation for the services required, must soon, it would seem, be generally recognized.

I shall be satisfied if this book shall do any part of the work of awakening the people to the futility of leaving our highways in private hands, or of failing to reap the reward of the enormous economies which government ownership will surely effect.

It is with much hesitation that I have approached the publication of this book. I had hoped that the agitation of a few years ago would encourage some abler writer to make public a plea for government ownership. As a matter of fact, the interests opposed to public ownership have caused to be written books which are briefs for the private companies, full of laudation of them, and stuffed with sophistical arguments against the system which the world has in the main adopted and is rapidly pushing to complete acceptance, while the other side has remained silent. No one else having published the people's side of the question, I offer this little work as my contribution to a literature the poverty of which is my excuse, if excuse be required.

A. V. W.

SIoux CITY, IOWA,
March 15, 1910.

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Government Ownership of Railways

CHAPTER I

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INTRODUCTION

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I SHOULD like at the start to convince the reader that government ownership of railways is the paramount issue, as the politician puts it. By this I do not mean it is as a matter of fact a paramount political issue, though it ought to be, but that it is the most important, serious, and live topic which our people should be considering, and in order to carry this point, I shall sacrifice the order of the argument of this volume somewhat, and deal briefly in this opening chapter with some subjects which may be treated more at length later on.

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I want to convince you of the truth of four significant contentions which I make. First: that government ownership is all but an accomplished fact in the world at the present time. Second: that all the governments which have tried the system of nationalization of railways were never so active as now in the matter of bringing about complete government ownership by extending the present system by purchase and construction. Third: that the sentiment in favor of government ownership among the people of this country, and of the world for that matter, is more general and deeply seated than it is commonly understood to be. And fourth: when government ownership comes in this country it is likely to appear very suddenly.

With reference to the first and second propositions, it is perhaps not generally known that there are but four countries in a total of fifty-four in the world where there are substantially no government-owned railways. Great Britain and the United States are the only two first-class powers where government ownership is not the rule and private ownership the exception. The other two, not first-class powers, in which there is no considerable

mileage of national railways are Spain and Turkey. Two countries deserted the ranks of private ownership during the year 1909, for Greece last year completed arrangements to take over one of her important lines, the Piraeus and Athens railway, and Guatemala has contracted for the building of an important railway on government account. Of the aforesaid fifty-four countries in the world, thirty-two own substantially all their railways. Among these are all of the Australian governments, and most of the European nations. Nine other countries, or forty-one in all, own and operate more than half the railways on government account. Five more, making a total of forty-six, own more than one fourth of the railways in the country. In addition to these China has lately acquired, and now owns and operates on government account, 470 miles, and Canada 1562 miles, making forty-eight out of the fifty-four countries owning from a substantial portion to all of the railways in the country. Add to these Greece and Guatemala, each of which owns a small mileage on government account, and we have fifty out of fifty-four nations to some extent engaged in govern-

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ment ownership of railways, leaving the four countries above mentioned with substantially none.

A brief history of the development of nationalization will be found in the next chapter, but in order to emphasize the importance of this question as a live issue at this time, it will be interesting and instructive to learn what other nations have been doing in the last few years, in the line of government ownership, while we have been struggling unsuccessfully for efficient control.

Switzerland, by a direct vote of the people, in 1898 decided to purchase all but one of her railways, and negotiated for and secured their delivery to the possession of the government, which was completed in 1903. The operation of these has been so satisfactory that, as soon as the concessions granted Italy can be released by treaty, the St. Gothard line, the only one remaining in private hands, will be taken over and operated by the government with the rest.¹

Italy in 1905 cancelled the lease of the private companies and began the operation by the government of the railways in that

¹ *Monthly Con. Reports*, May, 1908.

country, and has just recently decided to build a thousand additional miles of line and spend many millions of dollars in double-tracking and otherwise improving existing systems.

Germany has purchased nearly all the lines remaining in private hands and has now the conceded best system of railways in Europe.

Japan, in 1907, passed a law which authorized the acquisition of all the railways remaining in private hands, and the provisions of the act are being rapidly carried out, more than ninety per cent. of the railroads of the country being owned and operated by the national government on January 1, 1910.¹

France, after a long struggle, passed in 1906 a law authorizing the purchase of the Northwestern Railway and, after much opposition on the part of the conservative leaders and the private railway companies, within the last days of 1908 arranged for the transfer of that important railway to the state, which transaction, it is conceded, is but the beginning of the end of private ownership in that country. As the railways all revert to the

¹ Con.-Gen. E. G. Babbitt, *Consular Reports*, Jan., 1910, page 55.

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government shortly, in any event, and as the government there exercises very complete control of the railways, ownership by private companies has been little more than nominal from the start.

Mexico secured control of nearly all the important railways of that country in 1907 and is contemplating large extensions on government account.

China has had such splendid success in operating the Peking-Kalgan line on government account that the press dispatches announced on January 1, 1909, that the government had purchased, paid for, and taken possession of the Peking-Hankow lines. The officials are building the Jehol line also on government account.¹ This was forecasted some months ago by a report to this government which will be referred to later.¹

Chili, owning nearly all her railroads, is now building and making plans for buying and constructing additional lines to the extent of doubling her mileage.

The Natal government is building a system of railroads into new and undeveloped agricultural fields, having brought to a splendid

¹ *Monthly Con. Report* for November, 1907.

paying basis the roads which the government owns.

Argentine Republic is a late convert to government ownership, but the Ministry of Public Works, among other extensions of government railways, will lay before the next Congress, which is shortly to meet, a bill authorizing the President to construct a railway from Tucuman to Catamarca, which will cost about \$8,000,000 American money, and Consul-General Bartleman says that this is but a part of a large plan of railway development to more closely unite all parts of the republic.¹

The Department of Public Works of Brazil has in the course of construction, authorized, and under consideration, the extension of the government lines in that country. The activity of the Brazilian government is not new, for that country owns and has for a long time owned a large part of the railways. The department has also cancelled the subsidy contract to the private company which was about to build from Sao Paulo to the capital of the State of Goyaz, and the road will now be

¹ *Monthly Con. Report*, Dec., 1909, page 56.

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built and operated on government account.¹

Belgium has decided to at once do away with every remaining grade crossing on the national railways, at a cost of from forty thousand to two hundred thousand dollars per crossing. Austria, having owned a majority of her railroads for a long time, has been purchasing the balance rapidly, and has recently purchased and taken over to be operated by the government five systems aggregating about two thousand miles.²

The Swiss government has recently made the appropriations necessary for improving the government railways by much double-tracking, thirty-three miles of new mountain tunnelling, the construction of many permanent bridges, and the building of thirty-seven extensions and connections.

Nowhere is there any backward tendency. Wherever government ownership exists the people are perfectly satisfied, as will be more fully shown in later chapters, and the progress toward complete government ownership is rapid and consistent.

Referring to the third proposition for which

¹ J. J. Slechta, *Mon. Con. Report*, Dec., 1909.

² *Monthly Con. Report*, Nov., 1908.

I contend, I quote from Professor Hadley, an eminent authority, a believer in private ownership, but whose utterances are conceded to be impartial and judicial:

There is a strong popular feeling, to a large extent unsuspected by those in authority, in favor of government ownership of railways as a system. No one can have much to do with the more thoughtful laboring man without finding out how strong the feeling is and what hopes are based upon it. The fact that the question is not now under discussion must not blind us to the fact that forces are at work which may prove all but revolutionary when the question does come under discussion. If it be true that government railroad ownership would be a most serious political misfortune for the United States, we must be prepared to meet the danger with our eyes open. Unless we are able to face it intelligently and show reason for our action, the widespread feeling in its favor may prove too strong for us. It may not come for many years, but the lessons of the Granger movement show us what forces lie behind it when it does come.¹

Quoting and commenting on these words, Carl S. Vrooman recently said:

¹ *Railway and Transportation*, Prof. Hadley, page 258.

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That a similar state of affairs exists in Great Britain—the only other first-class power which still holds firmly to the policy of private ownership and management of transportation facilities, is borne out by a statement which was made to the late Frank W. Parsons not long ago by Mr. W. M. Ackworth, the most conservative railroad authority in England, to the effect that nine out of every ten people in Great Britain would vote for public ownership if the question were submitted to a vote to-morrow.

One of the most conservative magazines in the country, discussing the report of fatalities on our railways for the year 1906, said:

We believe this question must be presently raised: Can railroad slaughter be abated save through government ownership?

A prominent writer about the same time made use of similar language:

Government-owned railway systems, whether or not they may exceed roads controlled by private parties in cost of service, fulfil their functions with reasonable order and dispatch and they do not kill people.

Even those who do not believe the people are in favor of government ownership are

convinced that the system is to be forced upon us in another way; they believe that adequate regulation will result in nationalization; they believe the railroads can not exist in private hands, if the government exercises the control which the people demand. J. J. Hill in his recent open letter to Governor Johnson said that the investors would refuse to put money in railroads, if the attempt to regulate prices further was persevered in, for he said it threatened either confiscation or state ownership.

President Finley in a recent speech before the Traffic Club of New York said:

I do not believe that the sentiment of a majority of our people is in favor of government ownership, nor do I believe that Congress and our State legislatures are consciously moving in that direction; but I do believe that if some of the more extreme legislation already enacted is supplemented along the lines now proposed, the immediate result must be the breaking down of the system of private ownership.

Commenting on his speech before the New York Traffic Club last March, the *Railway World* said:

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Government ownership is the inevitable consequence of the present system of regulation. . . . We seriously question whether government ownership would not be better than the system of regulation which President Finley so graphically describes.¹

Similar quotations could be made to fill an ordinary volume, but it would not illustrate the point more fully than these pointed remarks of eminent men.

Referring now to the fourth and last proposition, there is abundant evidence in history to sustain the contention that government ownership is due to arrive in this country very unexpectedly.

Early in 1879 the Prussian Landtag, by vote so nearly unanimous that but a single nay was recorded against it, voted down a bill for the nationalization of Prussian railways, but in less than six months thereafter, an election having been held in the meantime, the Landtag, by a vote of 226 to 155, authorized the purchase of 1771 miles of railway, and the measure was almost immediately carried into effect.

Italy in 1885 leased the railroads owned

¹ *Railway World*, March 13, 1908.

and operated by the government to private companies for a period of sixty years. It was provided in the lease that either party could cancel the same at the end of any twenty-year period by giving two years' notice.

Before the lease was made, a royal commission pretended to make an exhaustive inquiry into the comparative merits of private and public management, and made a report that government ownership was undesirable, and about to be abandoned by those countries which had tried it, particularly Germany. It will be seen that the fact was that Germany was progressing at that time, more rapidly than any other nation, in perfecting a complete system of nationalization, and that all over the world the progress toward government ownership was not then and has not at any time been on the wane.

The royal commission of 1903 reported in favor of retaining private operation of the railways owned by the government, reiterating the assertions of the royal commission of 1885. This report the Zandarelli government endorsed, in a proclamation issued in June, 1903. The required notice had, however, been given by the department of public works, and

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on April 22, 1905, and just a few days before the expiration of the time for taking advantage of the provision for terminating the lease at the end of the first period, the Italian Parliament passed without discussion, and by an overwhelming majority, the bill which established in Italy again the operation of its railways by the national government.

In Switzerland the question of purchasing its railways was submitted to a referendum vote of the people in 1892 and was overwhelmingly defeated. In 1897 it was again submitted and carried by a larger majority than that by which it had been defeated five years before. The reader will inquire why this sudden change? Do the people go crazy on the question of railway ownership? Is the adoption of railway nationalization always of a revolutionary character? No. The answer is very simple. Statesmen are always more conservative than the people and are more susceptible to the influences of powerful corporations. Even after the recent election which brought the Clemenceau ministry in France into power, upon the unequivocal declaration in the party platform for government ownership, the leaders of the party came

very near repudiating the pledges of the platform. The ministerial friends of the policy secured the passage of the bill to purchase the Northwestern Railway, by impressing the members of the party with the prospect that a repudiation of the pledges of the platform would result in driving their constituents into the socialist party, and in 1906 the bill passed.

The explanation is that the private railways with their great power of manipulation generally hold on until the sentiment of the people is overwhelmingly against them, and when it does come, government ownership comes suddenly.

The condition is most clearly expressed by Carl S. Vrooman in an article relating to the situation as it developed in Italy. He said:

Perhaps the most extraordinary part of the whole affair is the fact that this revolution was not caused by agitation but by events. Theories are fragile affairs when they come in conflict with facts,—and while most of the Italian public men were believers in the orthodox theory of political economy, and consequently were partisans of the private railway management, unfortunately for them their theories came in conflict

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with the particularly awkward fact that for many years had been looming ominously on the Italian horizon. It had been denied by political tricksters; it had been distorted by a purchasable press; it had been most carefully and curiously explained by learned professors of political economy, and it had been whitewashed by two royal commissions. In the end, however, the ugly, naked truth had to be recognized. The Italian regime of private railway management had been a dismal failure.¹

It will at once be said in answer to this argument that the private managers and private management of Italy ought not to be compared with that of America. But the fact is, private and national management are relatively the same in all countries. It is undoubtedly true that private management in this country is greatly superior to that of Italy. Government ownership would be equally superior. If there is any relative difference, it would undoubtedly be in favor of this country. The incentive under private management is primarily to make money. The incentive under public ownership is to give the service which the people demand.

¹ *Arena* for Dec., 1908.

The object—profit—under private management is best obtained when passengers stand crowded in the aisles of the cars, when every upper and lower berth is filled, by renewing the upholstering at the point of public indignation, by using old machinery as long as it can serve any purpose, and by making permanent improvements, not for the public's convenience and safety, but when economy requires it. The object—serving the people—under government ownership and operation is best subserved by the giving to the people of the conveniences which please them. The operating officers under government ownership would not be spending their own money, or that of any private investor; they would be spending the money of the people to whom they furnish the service. But the advocate of private ownership will exclaim: "Would the government give us such improved service?" The answer is plain. It can be given most forcefully by another question. "Would private ownership of the mails have given us the two-cent postage rate, and rural free delivery?" The inefficiency of private management is openly confessed by the advocates of the system

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except when they are discussing nationalization.

In a speech delivered in New York in 1907, Mr. Shontz said:

In the matter of railway improvements the railways have almost without exception been pursuing a hand-to-mouth policy which has proved costly to themselves, and irritating to the public. Costly to themselves, because before improvements necessary to relieve existing conditions have been completed their capacity has been exceeded by the growth of the traffic; irritating to the public, because at no time in recent years has the public been free from delays and annoyances of a continued state of congestion.

J. J. Hill, in his open letter to Governor Johnson of Minnesota, said that the railways were substantially five years and five billions of dollars behind the times.

For a year or more following the panic of 1907 the railway companies had a sufficiency of equipments, but unless we have suffered a permanent diminution of the volume of that commerce, which does n't seem possible, the car-shortage condition will be upon us in a short time in a more aggravated form than it

was prior to 1907. The winter of 1909-10 just passed was a severe one, and some allowances should, no doubt, be made for that, and yet the demoralization of the service was out of all proportion to the severity of the weather. The Governor of Iowa was moved to make a request to the managers of our private railways to abandon a sufficient number of passenger trains to enable them to haul coal enough to prevent suffering at many points in the State, notably Marshalltown. Except during the winter following the panic, there has not been one in ten years during which there was not more or less suffering by reason of a shortage of coal in some parts of the United States, and particularly in the eastern Dakotas where there is substantially no local supply. Roadbeds are not what they were a few years ago, and rolling stock and power are woefully crippled, and this too, notwithstanding the fact that freight rates have been constantly forced upward for several years, and notwithstanding a volume of business in the dullest times, very near up to the capacity of every railway.

Private management where government ownership has been tried has been found

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wholly incompetent to cater to the wants of a highly civilized people. Nowhere is this inefficiency so painfully felt as in England, where it has to stand the test of competition from government ownership on all sides. There is abundant evidence in this country to sustain the same sort of a verdict, but the jury—the public—has not yet got down to consider the matter in a serious light.

Whether the reader believes in the argument of this book, or gives preference to the doctrine of "*laissez faire*," or perhaps the more orthodox belief in a mild sort of regulation, he should study the question carefully, for as the world is now moving it is sure to be a burning issue in this country within a very short time.

Another influence which will bring government ownership about suddenly in this country is the studied suppression of information by the advocates of private ownership. The literature of the people is almost exclusively on the side of private ownership. On the shelves of our libraries can be found a long list of books extolling the advantages of private management and the virtues of private managers, and undertaking to show

that government ownership is not only a failure but is radically and morally wrong. The people have no idea of the extent to which government ownership of railways has been adopted in the world, and, in fact, have still more meagre information as to the wonderful success which has attended the change from private to government ownership.

The people in this country and under our Constitution are supposed to control the government. It is perfectly clear that they ought to know what the experience of the world teaches on these problems which so nearly concern their welfare. It is the part of wisdom, as well as simple justice to let them know the facts that their action may be considerate. Putting off the coming of government ownership in this way by concealing its advantages is to make certain that when it does come, it will come suddenly, and that is not the way it should come. Carl S. Vrooman has expressed this thought very aptly and forcibly as follows:

The more carefully and deeply a man has gone into the study of the question, the less apt he will be to advocate undue hastening of railway

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nationalization; but, on the other hand, the more thorough the mastery of his subject, the more likely he will be to realize, first, that the studied ignorance of the reactionaries on the subject is quite as dangerous to the cause of social order as is the fanatical half-knowledge and ill-timed haste of some of the radicals; and secondly, that the only cure for either the one or both of them lies in presenting to our people a generous diet of thoroughly authenticated facts.¹

¹ *Arena*, Dec., 1908, page 553.

CHAPTER II

OWNERSHIP AND OPERATION OF RAILWAYS A LEGITIMATE FUNCTION OF GOVERNMENT

GOVERNMENT ownership of the railroads is not a painful necessity, brought about by corrupt management of our system of transportation, but it is a plain, simple function of government, the exercise of which would in all respects promote prosperity, add stability to commerce, eradicate many of the evils which bring periodical depressions, and in every way better our condition. I want to ask the reader to come with me in a search for light on this question, and I promise that I will make the perusal of this book as easy as possible. I shall not burden you with statistics, nor obscure the way by any deep metaphysical discussion. These problems of government are simple questions which, if properly treated, can be

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understood by all; otherwise free government would be scientifically and practically a delusion. I shall start out with the assumption that the reader does not know anything about the subject, never having given the question any thought, and at the same time will undertake to pass rapidly over the primer part of the discussion, in order that those who have given the question some consideration may not be wearied by reading the very first chapters carefully.

Railroad building became practicable by the invention of the steam locomotive about 1830. Prior to that time the invention of a locomotive of a practical type was in about the same state as that of the airship to-day. Railroad building commenced all over the civilized world at about the same time. The first railroad company was organized in England in 1826, but it was a year or two later before there was any well-grounded belief that a successful locomotive could be invented. The company organized to build this railway from Liverpool to Manchester offered a prize of five hundred pounds for the most successful engine which could be made, and the test was to be a trip over that part of the track

which had been completed. This test was had on October 27, 1829. Stephenson's Rocket was the only one which covered the distance allotted without breaking down, and was adopted as the motive power of the railroad. The opposition to this innovation is interesting and romantic to recount. It was said that the introduction of the steam engine would ruin the great business of stage driving; that it would soon reduce to little value the most noble race of animals—the horse. They said furthermore that this new devil-wagon going about the country spitting fire and belching smoke would destroy the lungs of the people, and so frighten the cows and chickens that the former would refuse to give milk and the latter to lay eggs.

During the following year two hundred and six miles of railroad were built, all by private parties or companies. The next year Belgium commenced to build government railroads, and that country has never lagged in the business. The Belgian government has permitted private parties to build many roads, but from time to time these have been purchased by the government, and at no time has any considerable amount of the rail-

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roads of the country been in the hands of private parties. To-day the Belgian government owns 2500 miles of railroads, and private parties but 330 miles.

By the end of the first decade, or in 1840, Germany also commenced to experiment with government ownership in a small way, and these two countries operated about 500 miles, while private parties in the rest of the civilized world had constructed and operated about four times that amount, or 2022 miles. From that time until 1870, government ownership did not make much progress. Austria-Hungary, owning about 600 miles of railway on government account, sold its entire holdings to private parties in 1848, and Russia, owning about 400 miles, did the same in 1860. Up to 1860 only six countries of the world had tried the nationalization of railways. By 1870, fourteen countries were experimenting, but on a small scale, for there were but 3500 miles of railways owned by the governments, while private companies owned and operated 75,000. The great boom in government ownership, which has never ceased or taken a backward step, commenced sometime between 1870 and 1880.

When the census figures of 1880 showed that government ownership had increased in ten years from 3500 to 29,000 miles statesmen began to take notice and foreseeing men began to believe that it was the coming policy. These figures were not published and thoroughly understood until a year or more afterward, or about 1882, and this gave the new departure a great impetus. So great was the interest that European statesmen could not wait for the next regular census, and by general agreement among the nations of the world a railroad census was taken in 1888. The showing of the growth of government ownership which this census made was not unexpected, for many of the prominent nations of the world, numbering thirty-one, had, it was generally understood, entered the field of government ownership in earnest, and with a promise, if not a certainty, of a permanent policy.

The reader will, of course, ask what was the effect of this agitation in the United States? and why, when the nations of Europe and the whole civilized world were adopting the policy of government ownership which is so nearly accomplished at this time, did not this

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country naturally drift in the same direction? You will remember that Senator Reagan introduced his railway commission bill in the early seventies. The men who look after the railway interests in the Congress of the United States took a very ingenious method of averting discussion of government ownership in this country. They resuscitated Senator Reagan's dead bill providing for a railway commission, and Senator Cullom introduced and secured the passage in 1887 of the present Interstate Commerce Law, which turned public attention away from government ownership. This is the true secret explaining why even the railways themselves, in 1887, appeared to be in favor of regulation of the mild kind proposed in the Cullom bill. There was just one single exception to the general drift toward government ownership in the eighties, and this was the leasing by Italy of its national lines to private companies as hereinbefore related.

But to go back to 1888 again. Great as had been the increase of government ownership from 1880 to 1888, the increase in the following twelve years was much more astonishing. The miles owned by the governments

(England and the United States not included in the totals) increased in that time from 64,000 in 1888 to 157,000 in 1900. This was the first period during which private ownership fell off. Outside the United States the miles of railway owned privately fell from 153,000 to 106,000. In 1905 the miles owned by the governments of the world had amounted to the sum of 216,000. As forty-seven countries were then engaged in the business, it follows that government ownership was the rule and private ownership the exception. The next census will show that outside the United States, England, Spain, and Turkey, complete government ownership is all but accomplished.

The reader, if he has not studied the question before reading this chapter, will be quite astonished. In a later chapter there will be found a table carefully prepared from the latest sources of information, showing just what countries are engaged in the business of operating their own railways, but for the present it is sufficient to know that it is, as hereinbefore stated, very nearly fully accomplished in the whole world.

CHAPTER III

WEAKNESS OF PRIVATE MANAGEMENT

PRIVATE management is beginning to demonstrate in a degree that cannot be longer overlooked its lack of capacity to minister to the wants of our rapidly developing country. The civilization of the more advanced nations and the more scientific basis upon which commerce is now conducted demonstrates the crudeness of the methods of private management. Since industries of all kinds are adopting the most efficient labor-saving machinery; since the economy of combination and organization has become the fundamental principle of progress in all affairs of business; since the specializing of work has gone so far as to include even the farm; since the mode of life of our people has become so responsive to every financial and industrial disturbance, the crude, disorgan-

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ized, unscientific system of railways is the sorry misfit of the times. They are organized very thoroughly to maintain their political influence. They are fairly well equipped to do business on their own money-making basis, but they have not been constructed, nor will they be changed as they should be, to be able to render the most efficient service. They centre in large cities and congest business there, wholly unmindful of neglected communities. Parallel lines have been built with childish folly. Not only have railways paralleled each other, but they have paralleled rivers and lakes and canals. They have been built with the intention of building up cities and certain sections of the country and suppressing others. They have spent their best efforts and constructed their lines to make certain export cities great instead of seeking the nearest and most economical haul to tide-water. Outside the necessary uniformity of gauge and coupling facilities there is no system whatever. A glance at any freight train will make this point plain.

They boast of their enterprise. So long as we observed the *laissez faire* policy without limitation private investors exhibited great

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enterprise in building new roads, opening up new territory, and keeping their different constructed properties in good repair. This—a wasteful policy—will not again be indulged in. Railways were not built across the continent or into the territories for the profits which were in the prospective development of the country, but for the attractive bonuses of stocks and bonds. Added frequently to these were grants and other subsidies offered as inducements by the nation, supplemented by like assistance from states and counties. Some of these roads were constructed only after the government had given to the private company the full cost value of the railway in land and even then the amount of bonds and stocks issued was three times the cost of the construction. Such extravagant methods were wrong at the time and will never again be tolerated. Private capital will not furnish the funds for pushing roads into new territory with the efficiency which the people of this country will demand. Private investors will not be willing to supply the transportation facilities, the lack of which has already begun to be in evidence. But these are general statements.

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To be more specific: there are many things which the people will soon demand of the national system of transportation. Without enumerating all, the following are perhaps the most important. In the first place, the government will be obliged to use the railroads to encourage foreign commerce. Other countries are purchasing their railroads and inaugurating this policy and the people will demand that our government meet this competition. In the second place, as our volume of commerce grows our methods of living become more advanced and intricate, the whole system becomes more sensitive to any disturbance, and the freest possible facilities for interchange of commodities will be indispensable to our prosperity. The people will demand public railways for the same reasons and a thousand more that make public roads and public service in the matter of mails at a nominal cost a necessity. In the third place, the people will demand an equalization of the rates over the whole country, the operating of the whole system of railways as one, and the institution of all the economies which will remove the practices which are so wasteful to-day.

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There is no instrumentality of government which can be used for so many purposes and so effectively for good as the ownership and operation of the transportation facilities of the country. At the same time there is no power which is so nearly incapable of abuse. Every use which the government can make of the power is in the interest of the people. The contrary might be true in a monarchy, but can not be so in a self-governed nation like ours. It is a less dangerous prerogative than is the power to levy tariff taxes, and it has the same and many other and greater advantages. The only way in which the government can manipulate the levying of the duties on imports to ameliorate conditions arising from an adverse tariff levied by a competitive nation is by retaliating. This method has not proved satisfactory. Where the government owns the railways it can lower the freight rate and thus neutralize or nullify the effect of an adverse tariff. By this means in every country where the government owns the railways the freight rates are used as a more powerful stimulus to commerce than customs. The industries which depend upon the export of commodities for their prosperity can not

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be benefited by a tariff. Low freight rates for export can accomplish this object.

It is presumed that the reader understands that the private railways give a slightly lower rate for export than for home consumption. It is not, however, generally understood that the reason for this is because the governments which own their railways are using this power so effectively that the railways of this country have been compelled to lower the rate for export just a trifle, but nothing compared to what should be done. In many countries where the governments own the railways, they have built up important industries under great disadvantages.

Here is one example showing what Austria is doing in this line:

There is no doubt that this deficit is due to the policy of granting, in some cases, minimum rates below the actual cost of operation, with the object of fostering certain industries. A striking instance of this is the freight rates granted for sugar. The Austrian beet sugar industry owes its importance mainly to its great export trade, which amounts to three fourths of the entire output. This export of sugar is only rendered possible by these reduced rates, both on the part of

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the State and the Austrian Lloyd Steamship Co. . . . Preferential rates for the encouragement of export or for the benefit of some special industry have indeed been granted, but were not accorded to privileged persons or companies only. The control of freight rates is an important complement of the customs policy and a powerful instrument in the hands of the government, which is thereby enabled to combat adverse custom regulations of adjoining countries. Partly with this special object in view the important acquisitions of the present year have been effected.¹

Germany has used her power of making freight rates even more effectively than has Austria-Hungary. G. G. Huebner, in a recent paper before the American Academy of Science of Philadelphia, makes this statement of the policy as applied by Germany:

Sixty-three per cent. of Prussian traffic does not come within classified schedules but under special commodity rates or "aushahnatarife." The practice of giving exceptional rates to selected commodities is the most striking part of the Prussian rate-making system. Prof.

¹ W. A. Rubles, Con.-Gen. at Vienna, *Con. Rep.*, Nov., 1908.

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Lotz aptly calls it a kind of "Merkantelsystem." With the deliberate purpose of regulating industry and commerce through the powerful medium of freight rates, sixty-three per cent. of the traffic is given rates generally about half as high as classified rates and seemingly unusually low when compared with rates enforced in neighboring countries. These rates are given to build particular industries, promote specified districts, to protect German railways against foreign railways and water-ways, to overcome emergencies, to build up German seaports, to promote German export trade and discourage the entry of specified imports.¹

According to Consul Albert Halstead, the preferential freight rates granted by the government railways of Germany affect seriously the export trade of the United Kingdom and also give German exporters an advantage over American exporters in competitive countries.²

The important special and commodity rates given by the railroads in this country and wherever private management obtains are used for the purpose of building up certain

¹ *Ann. Am. Acad.*, vol. 29, page 329.

² *Monthly Con. Rep.*, Oct., 1906, page 124.

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localities as against others, or certain favored industries, and for killing off cheap water transportation, and all these uses are an injury to the legitimate business and growth of the country. If the government owned the railways, it would not try to kill off water competition by cheap rates, but it would encourage the cheaper transportation and make this reduction of the rate where it would do some good. Cheap rates are also given for the purpose of inducing long hauls on the railways, and this is another detriment to legitimate business, creates an unnecessary demand for transportation by rail, and is a wasteful wear and tear on machinery. These would be the very first reforms to be brought about, because the people operating their own transportation facilities would want to make the most economical use of every means of transportation. This policy, so far-reaching for good in the smaller countries of Europe, would be of inestimable value, if applied intelligently to the great territory and the manifold resources and commerce of this country. ✓

The governments which own their own railways are going to make the power of this

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policy well understood in this country before long. We shall be compelled to meet the demand of our people for a more enlightened policy in this respect.

In the same connection should be mentioned two other great advantages in the matter of foreign commerce inherent in government ownership. Where the government owns its railways there is a general policy of making what are called tapering rates. That is to say, not only is a long haul made more cheaply per mile than a short one, but rates taper toward the centre of a large country or toward those sections which are the farthest by rail from tide-water. This has caused the private railways to apply this rule to a limited extent, but not in any measure which will give the advantages which government ownership would make at once advisable. ✓

The other advantage referred to is the utilization of our water-ways. To the economic truth that this great natural means of cheap transportation should be utilized, the nation is just awakening. Rates have been fixed by the private railways for the purpose of competing with water routes. It has been their aim to kill off or cripple river transportation.

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The two should be used harmoniously by the government. It can accomplish this only by owning and operating its railways.

We shall be compelled, if we hope to attain our highest measure of efficiency in transportation, to make in the near future a full and co-ordinate use of both water and rail. Germany is developing not only her rivers, but is building canals complementary and not competitive to the railway transportation of the country. Is there any possible reason why we should not be doing the same?

Transportation, if it ever was a legitimate field for a private money-making investment, has become now, not a private matter, but a means for doing all other kinds of business. If railway transportation is inadequate commerce is restricted. If commerce is valuable (and no one will be heard to deny that it is), then a deficiency in means of transportation is a national loss. If a restriction of commerce tends to bring about industrial depressions, which is generally conceded to be the case, then a deficiency of transportation facilities is a national calamity. In 1907 the railways of this country were over two hundred thousand cars short of the public demand.

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This certainly had a very great part in bringing about the industrial depression following the financial stringency. Because railway transportation has become so vital to business its control and adoption as a government function has become a public duty. Transportation in that respect is like the circulating medium. Both have the power to encourage commerce, if abundantly supplied, or restrict it, if inadequate to the demands of business. For the general welfare then of the country the government should own the railways, and I believe this is the main argument which in most cases has induced so many countries to adopt the system of nationalization of railways.

We have now seen that government ownership would be the most powerful instrument in the hands of the nation for two great ends:

1. The building up of foreign commerce.
2. The encouraging of the largest possible volume of domestic commerce.

These are far-reaching powers for good. Let us look into several less fundamental but scarcely less valuable advantages of government ownership. Perhaps it would help the

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discussion to enumerate them before taking them up separately.

1. The saving in interest, for the reason that government bonds would bear a much lower rate than railway securities.

2. The economy of operating them all as one system.

3. The saving in making over our jumbled mess of railways into a national system built upon some plan devised by competent engineers.

4. The saving by doing away with soliciting agents, competitive establishments, financial departments, and high-salaried and useless officials.

— 5. The gain to be made by fixing rates so as to render the largest service that can be given at a profit, which is the policy of the government in everything which it undertakes, as evidenced particularly in our postal and public school systems, and doing away with the private money-making theory, which can be based only on rendering the least service which will give the maximum of profit.

— 6. The equalizing of rates all over the country.

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7. The saving in the carriage of the mails for which we now pay such an exorbitant price.

8. The saving in doing all the express, fast and ordinary freight business through the same office and machinery, as is the case with all government-owned railways.

Most of these points need little more than to be stated. Some will bear a little elaboration.

Three roads run trains from Sioux City to Des Moines, all leaving at about the same time. Neither one has business enough to justify the carrying of a sleeper, so that passengers have to sit up most of the night. Either line could carry all the passengers in the equipment now carried by one, and would have sufficient patronage to utilize the capacity of a Pullman.

Several roads running from New York to Chicago have trains leaving at the same hour. The same character of trains leave on very much the same time. The government would not run all its limited trains out of either city at substantially the same hour, for fear of losing passengers, but would equalize the service so that limited trains could be taken at

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different hours in the day. In this way a saving of half the expense could be made and the public be served better than it is now. The same is true all over the country.

Passing to the freight business; the greatest saving would be in the doing away with the expensive car service associations for accounting cars and securing their return to their owners.

The next greatest saving would be the doing away with the delay and expense of delivering freight to particular roads. Trainloads of merchandise bound for the West would not stop at or even go through Chicago. Instead of transfers being made in the cramped and expensive terminal facilities of the large cities this business would be done far away from the city and upon cheap ground where there would be abundance of room. This is a reform that J. J. Hill most strongly urged in his letter to Governor Johnson, but the railways have not as yet been able to put it into effect.

Passing now to the second saving: Belgium and France have never permitted a railway to be built except upon the plan of competent government engineers. A man does not

attempt to build a house except upon the plans of some architect or other person acquainted with such things. Our railways should have been built upon some systematic scheme, but instead they were built pell-mell—not with an eye to serving the people but with the sole purpose of making as much money as possible. Railway companies built lines to large cities in order to get some of the business, and this further congested the population, while deserving communities suffered for lack of transportation facilities. If the government should take over the railways, it would certainly very promptly set competent engineers to work to devise plans to make our mess of railways more systematic. It would not be as good a job after they got through as if the work had been done rightly at the first.

There are now about nine billions in railway bonds outstanding, upon which the railways paid in 1907 three hundred and nineteen millions of interest. There are seven and a half billions of capital stock, upon which there was paid two hundred and seventy-eight millions of dividends, being substantially four per cent. Thus the railways paid

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all interest as agreed upon their bonds, and about four per cent. dividend upon the seven and one half billions of stock, which is almost wholly water.

The reader will wonder why the private railways are crying for the privilege of raising their rates.

Remarkable as this showing is, the whole has not yet been told. The total net earnings that year were in excess of eight hundred and thirty-three millions, so that in addition to the three hundred and nineteen millions paid on bonds, and two hundred and seventy-eight millions paid in dividends, they had more than two hundred and thirty-six millions to go to surplus. Yet they say that their profits are so small that they must be permitted to make a substantial advance in rates. How would this be under government ownership? Exact figures can not be given, for we do not know what the government would have to pay for the railways. Five years ago the railways could have been purchased, according to the report which the Interstate Commerce Commission made to the Senate, for less than nine billions of dollars. Many stocks are lower now, but the price even now could not

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exceed eleven or twelve billions. The government would borrow the money for probably two per cent., but certainly not to exceed three per cent. That would be three hundred and sixty millions of dollars—less than half the present net income. This would mean that freight and passenger rates, instead of being advanced could be reduced proportionately.

Several nations have done better than cutting the rates in two after adopting government ownership.

The railways are not anxious to raise rates for the purpose of paying a fair return on the investment. They have that now. What they want is to raise money by the levy of freight and passenger taxes to build new roads and improve old ones. This would not be so bad if they did not charge interest upon it. But as soon as the consumer's money is thus put into a new railroad or the improvement of an old one, it is stocked or bonded, and the private manager draws dividends or interest thereafter on the consumer's money.

Perhaps the fifth saving needs a little explanation. The railway freight rates in this country have been established by experience.

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They are a matter of growth. They have been settled upon by raising and lowering them until the point has been found where they return the greatest profit. This does not mean the greatest revenue. It means that point at which the greatest profit to the private railways can be secured, and that is the point at which the cost of the service bears the most favorable relation to the income.

To illustrate: We start by assuming that over a certain distance seventeen cents per bushel is the rate established for hauling wheat. This rate causes one million of bushels to be shipped annually. For that service, the railway gets \$170,000, \$70,000 of which prove to be profit. They raise the price one cent a bushel. Shipments fall off to 800,000 bushels. This materially reduces the profits. The rate is too high from the private railway stand-point. They then make a great display of their friendliness for the farmer and put the rate down, not for the shipper's benefit, but for their own. They put it to sixteen cents. Immediately the volume of business is raised to 1,200,000 bushels. It still costs ten cents per bushel to

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carry it. This leaves a profit of \$72,000 and is the point below which rates are not usually lowered under private management, because it is now clear that lower rates will not pay the same returns. If lowering the rate another cent would induce the shipment of 200,000 additional bushels of wheat, the net profit would be \$70,000. The net profits are therefore \$2000 less, and in addition the private managers would have to provide equipment for the carriage of 200,000 additional bushels of wheat. It is easily understood that the private manager, looking at this service strictly from the standpoint of the investor who employs him, would see that the proper charge is sixteen cents per bushel, which realizes the maximum profit and a small haul.

If the people were operating the railroads for themselves, it is as easily understood that they would keep putting the freight rates down so long as there was a substantial increase in the volume of traffic, and to that point where there was the lowest advisable profit. If there were any special circumstances surrounding the traffic, it might be put below the cost. Laying aside these

special advantages, however, there is a vast and wonderful difference between the point where the largest profit is obtained and the point at which a fair profit can be realized.

The principal advantage of equalizing the rates all over the country would come about in cases like this. The distances from the Michigan salt fields and the Kansas salt mines to St. Louis are about the same. The rate is about fifty per cent. higher from the Kansas mines than from the Michigan mines. The Interstate Commerce Commission was asked to remedy this injustice, but they could do nothing. The railways east of St. Louis showed that they traversed a very much more thickly populated country where the volume of business was so large that they could give a lower rate. In addition to this advantage, the movement of crops from the west was so great that the direction of empty cars for the greater part of the year was westward, and to fill up the empty cars a low rate could be advantageously made for any product that could be induced to move westward. This is what is called the ballast theory of rate-making. Both these conditions were re-

versed on the Kansas roads. Nothing could be done.

Some railways are capitalized for as much as twice that of others. The private railway company must be allowed to charge according to capitalization otherwise the stock held by innocent purchasers would be confiscated. Speaking of this the Interstate Commerce Commission said:

Agricultural products can bear only the least possible rate which is reasonable. The Chicago, Santa Fé & California, and the Chicago & Alton railways run side by side from Kansas City to Chicago. The Alton is capitalized for \$46,000 per mile, and the Santa Fé at \$92,000; their rates must necessarily be the same. Must they be such as would yield an income on the basis of the Alton's capital and obligations or on the capital and obligations of the Santa Fé which are double as much? The bonded debt and capital of the B. & M. Railway Company in Nebraska is \$37,000 per mile, and that of the F. E. & M. V. Railway Company is \$36,000 per mile. They parallel on either side the Union Pacific capitalized for \$105,000 per mile. The bonded debt of the Union Pacific per mile is \$71,000 and is nearly double the bonded debt and capital of either of

the other roads. The three must necessarily carry on the same terms. The bonded debt of the Union Pacific is double the original cost of replacing it with its \$17,000,000 of terminals.¹

It will be remembered that certain captains of finance undertook lately to remedy this defect in the private railway management by doubling the capital of the Alton. All these inequalities could be at once remedied if the government owned the roads, and could fix rates on the system as a whole.

The seventh saving noted above is well understood. The government now pays an exorbitant rate for carrying the mails. It will always be compelled to pay a very high rate for it demands a special service.

Referring to the eighth and last mentioned saving, it should be understood that the fast freight and express business are legitimate freight traffic, and in every country where the government owns the roads the express business is done in the same way as the other freight. The saving would be in economizing by abolishing all the machinery, the officers, and the watered stock of express com-

¹ *Interstate Com. Com. Report*, vol. 4, page 65.

panies. The saving by the using of union depots, thus discarding many acres of valuable terminal grounds and buildings, would be enormous, and the public would be afforded better accommodations. ✓

The people of this country will soon begin to understand what an economic waste is being brought about by these expensive methods of private railways, and most of them are impossible of being abolished so long as private companies own the railways.

CHAPTER IV

THE PRINCIPLE OF FREIGHT RATE-MAKING KNOWN AS CHARGING "WHAT THE TRAFFIC WILL BEAR"

ONE would think that the charge for the carriage of any article of freight should be governed by its weight, its bulk, its perishability, and the distance that it is to be carried. The greater the weight, the greater the wear and tear on equipment and the more power required to move it; the greater the bulk, the more room it requires; the more perishable it is, the greater care in handling must be observed and the greater danger of loss by delay; and the shorter the haul the greater the proportionate expense for loading and unloading.

At first thought it would appear that the value of the article ought not to be taken into account in determining the transportation charge. A ton of cotton, it would appear,

ought to be carried as cheaply as a ton of silks. It would also appear to one who has not studied the question that a charge of a certain amount per mile, taking into account weight, bulk, perishability, and the expense of loading and unloading, would be just. Such a method of fixing rates, however, would stagnate the whole movement of commodities at once. These theories were discarded long before railways came into existence. If the bulk and weight of articles were made the basis of charging, a prohibitive tariff would at once be laid on the movement of many important commodities. If a purely distance tariff were established, it would bankrupt the western agricultural States and stagnate exportation of the chief commodities of foreign commerce.

Therefore, the value of the article must be taken into account when fixing its carriage charge. Properly speaking, the ability of the article to pay must be reckoned with. That is generally determined by its value. In other words, a rate has to be fixed for each commodity at which it will move. If the rate on agricultural products was the same per ton as the rate on cutlery not a bushel of

wheat would move any great distance by rail for export. This fact was recognized in the shipping industry long before railroads were thought of.

Freight rates in this respect are different from the charge made for services in all other callings. This is not contending that the ability to pay theory does not enter slightly into many other transactions, but that nowhere else does it appear as the controlling principle of fixing charges.

When a wagon-maker repairs a vehicle, he charges for the material, the labor, and a reasonable profit on the equipment of his business, and if the vehicle will not pay this charge, it is assigned to the junk heap. This principle cannot be successfully applied to any system of transportation. The cost of service can be taken into account in a general way only. It is essential that commodities move, and therefore the fundamental theory of correct freight rate-making is to so distribute the charges that there will be the largest possible exchange of articles of commerce. We say the largest volume of commerce possible, because no inducement will cause an exchange of commodities that is not

otherwise desirable. That is to say, no man will sell or exchange a product simply because he has the facilities for so doing, but on the other hand, a very slight deficiency in facilities may very greatly restrict commerce. There is therefore no danger of an excess of transportation facilities, so long as the addition brings a corresponding increase in the volume of commerce. Nor is there anything but good in reducing the freight rate so long as it increases transportation. Theoretically perhaps perfectly free transportation would be the ideal, but this is not a perfect world, and theories are not always consonant with practical things.

The very grave necessity of a more general education has made it seem wise to go to the extent of giving a common school education free. Everything else is on very nearly a paying basis. The place at which to stop in extending facilities and reducing freight and passenger rates is perhaps that point where the largest volume of commerce can be secured at a very small profit. Can private companies be depended upon to do this? Is not such a delicate duty a function of government?

To still further complicate matters, there come in other considerations, secondary, it is true, but quite powerful, such as the volume of business, the more than average cost of construction of the railways, whether by reason of natural obstacles or watered stock, and what are called the ballast rates.

Any arbitrary fixing of rates on any principle which ignores the loss involved in carrying empties would result in the cars of some railways going one way filled and coming back for the most part empty. The necessity for equalizing such conditions is obvious.

Still further complications arise where railways have been built in a mountainous and rough country, and where rates are forced down by water competition. The former misfortune must be visited upon the patron who happens to be compelled to ship on the high cost railways and the losses from water competition must be made up elsewhere.

Judge Walter C. Noyes in his recent book, *American Railroad Rates* states the principle thus:

In the first place, revenue must be obtained where it can be obtained. Cheap goods have

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less ability to pay than dear goods. Different grades of traffic must necessarily pay different rates for the same service. . . . Cheap and bulky articles can be obtained for transportation only at low rates. They have not the ability to pay high charges. On the other hand, a high rate may be an inconsiderable item to articles of little bulk and great value. They have the ability to pay the rate. Charges for transportation of coal, iron ore, grain, lumber, and other articles of little value compared with bulk, must necessarily be at a comparatively low rate. A high rate would be prohibitive. They could not afford to pay even the average rate. Dry goods, fine hardware, and similar articles can pay several times the rate on lumber and coal and the volume of the shipments will be unaffected. . . . Upon the same theory through traffic has not the ability to pay local rates.

This principle, if it can be called a principle, of rate-making has been given a name suggestive of its unscientific character. It is called charging "what the traffic will bear." As applied by the private railways it would be a little more correct to designate it as charging "what the public will bear." Under government ownership it is changed again

to read "charging what the traffic should bear." It is, however, the only practical method of fixing freight charges.

It will be readily seen that there are several ways of looking at the question of ability to pay. When the railways are in the hands of private parties the profit making purpose is uppermost. The public convenience and good are secondary considerations. This is perfectly natural. The private owners of the people's highways are not to be condemned for it. Free movement of commodities is of no consequence to the private railway owner except as it affects revenue. What they aim at is such a movement, free in some cases and restricted in others, as will produce the most favorable showing on the profit side of the ledger.

As a matter of courting public favor in matters of legislation, railways sometimes give a low rate for the benefit of suffering and stricken localities, but there is no general policy of that kind, and we ought not to expect it from private individuals. It is different with the government. It would not, for instance, undertake to extract from the poor man the largest amount of money

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which he can pay for the least fuel he can use without freezing, but would fix the price so low that the maximum of comfort which his means afford would be placed within his reach. The government's principal profit lies in making its citizens more comfortable and prosperous.

The private railways give low rates to emigrants as an inducement to settling up a country, and after the pioneer has bitten at that bait he is charged enormous rates for perhaps the balance of his life because the country is thinly populated and the volume of business is very small. The government, when necessary, could give freight rates which would settle up the country faster and remove the very great hardship of high freight and passenger rates. This is no speculation. It is being done in every country where the roads belong to the government, and particularly in Australian countries. The rates are not made lower in the new countries than the old, but they are equalized on the same principle that the government carries a letter over the mountain trail to the isolated village for the same two cents that it asks to deliver it to your next door neighbor in the

city. No such flat rate is possible, of course, in freight or passenger rate-making, but the same principle should be adopted. The rate should be fixed and equalized as a whole.

It needs no argument to show that this fixing what the traffic will bear by private companies will always be very different from what it would be if the government fixed the rate. The public convenience and prosperity would be the main object then. The private railways levy these taxes, for freight and passenger rates are taxes—the ablest writers concede that now—in such a manner as to realize the greatest profit to each road. Necessarily there are as many different theories as there are different conditions of railways in the country. The government levies these taxes upon all articles generally and upon the railroads of the country as a whole and in such a way as to best subserve the interest of all. Because rates should be fixed according to what the traffic should bear, it is clear that such a delicate duty cannot be justly performed by a private dividend-seeking corporation. The complicated matter is subject to manipulation. For this reason, but more particularly

because the fixing of the burden of what anything should bear is akin to the administration of justice, the fixing of freight and passenger rates is a government function. This is the argument of one of the great German writers.¹

State and National Railway Commissions, composed of the ablest men in the country, have endeavored fruitlessly for years to ascertain some theory upon which rates can be enforced in the courts. It having been settled that this cannot be ascertained by any method of computation but must be what the traffic will bear, which is clearly a matter of experiment, it is, of course, out of the question to hope for success in the future. The government can, it is clear, ascertain what rates are for the best interest of all the people, only by experimenting in freight and passenger rates, just as it has done in the rural route and other mail service. As traffic volume grows, as our commerce and mode of living become more complex, the private railway managers laugh at the impotence of commissions and the courts and the latter cannot make a move except against

¹ *Englische Eisenbahnpolitik.* Gustav Bohn.

rates that are wholly unreasonable when measured against their watered stock and other inequalities. When the court gets beyond discrimination, all is darkness.

Maximum rates fixed by statute have been found by the railways to meet all their desires or have been set aside by the courts as confiscatory. It is an easy matter to say what rates ought to be tried out, but the government cannot make a private corporation take the chance of a possible loss in order to try out a scheme of rates, no matter what the prospect of success. The government, so long as private money-making corporations own the railways, must be able to show that any rate which it fixes will not impair the amount of dividends which will pay interest on the particular railway for which it is fixed, taking into account the cost of the railway, watered stock and all in the first place, and then if anything can be done for the public, which is not often, that is the most that can be expected.

Then again the movement of products does not always respond at once to a lower rate. If grain rates were lowered to-day, it would necessarily take some time to build up

the industry of farming and demonstrate the point of maximum benefit to the public. This is one of the very greatest objects which the government could accomplish by owning and operating our railways. It is conceded that a larger per cent. of our people should till the soil. Farms should be smaller and better methods of agriculture observed. The possession of the railways by the government would be the most powerful means for bringing about this condition. New and unsettled territory could be developed—not with a view of bond and stock speculation, but with a view of making the country more prosperous and increasing our agricultural exports, and at the same time making a greater number of and more prosperous purchasers of manufactured goods.

The government could try out all these things just as it tried out the rural route mail service. That did not seem promising at the start, but it has proved a most popular service and has done more to make country life agreeable than anything, unless it be the rural telephone. Such a service could not have been tried out by private parties. Even with the deficit which it has created in

the Post Office Department no one thinks of abandoning it.

The government can experiment safely for it experiments with itself. When our government takes over the railways, it is certain that there will be the same difference between the management here and in Europe that there is now in the policies obtaining in the postal service in this country and there. In all countries of Europe the authorities aim to keep the postal service just above the paying point. We have constantly extended the service regardless of the growing deficit. There is nothing dangerous about this. What is not paid for in stamp taxes must be paid for in some other form of taxation. The only important question is, Do the people want the service? Is it a good thing for them and does it increase their happiness and not injure their prosperity?

What the government has done in the matter of free schools and the postal service is but a bagatelle compared with what it could do for the people, if it should undertake to operate for them and upon the same principles their system of transportation.

CHAPTER V

WILL THE GOVERNMENT BE AS ENTERPRISING
AS PRIVATE CORPORATIONS HAVE BEEN
IN EXTENDING THE SERVICE OF
THE RAILWAYS?

HAVING stated the principal fundamental arguments in favor of government ownership, and before taking up the many other advantages of the system, let us consider for a short time some of the objections urged against the system. Of the latter no one is so unfounded as the claim, persistently urged, that the government would not keep up the high standard of service now offered the people of this country by their privately-owned railways. What has this government undertaken in this country that it has not done better than could have been hoped for under private management? The latest activity is the undertaking to give the people pure food. The government has shown a

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capacity for collective endeavor in this new undertaking which has surprised those who have heretofore put such a low estimate on the efficiency of our government in dealing with affairs of every-day life. But the argument which is touted to carry the point is based upon the difference between the railroads in this country and in Europe. The conditions are so different that the argument amounts to nothing. The only proper comparison is such as is made between government and private ownership in the same country or in countries similarly situated. Government ownership might be an entire failure in Europe and yet better than private ownership in the United States. A more instructive comparison is that between countries similarly situated and where one has government ownership and the other has not. But we are not without comparisons favorable to government ownership between this country and others in Europe. Consul Norton reporting from Chemnitz says:

The rapid extension of industry in Germany has called for a parallel development in the facilities for transportation. In most respects

this growth has been more harmonious and better adapted to meet actual economic needs than has been the case in the United States under corresponding conditions. This is due in a large measure to the fact that most of the railway lines are under government control, and to the consequent uniformity in management and avoidance of unhealthy rivalry.¹

It will be remembered that Switzerland took over its railways about eight years ago, or in 1902-3. It has not only reduced rates but has been making extensive improvements.

Thirty-seven extensions or connections were under course of construction in 1907, involving mountain tunnelling of thirty-three miles and the construction of bridges, including those only over thirty feet or more in length, of four and one-half miles.²

It will be remembered that when the Italian Government took her railways back from the private companies and commenced to operate them again they were found to be in a deplorable condition. Two years later

¹ *Consular Monthly Reports*, Nov., 1907.

² S. C. McFarland, Con. Gen. at St. Gall.

a correspondent of the London *Times* was sent over to that country to report upon the situation and the changes which a renewal of government ownership had brought about, and he reported a surprising measure of improvement. This policy is being more vigorously observed every year, and the financial disturbance of 1907 has not hindered its development. Here is a late consular report:

The law for construction of new railways in Italy, which has been under discussion for some months, has finally been promulgated. It provides for the expenditure of \$107,000,000 during the next sixteen years, and the construction of 992 miles of new roads, as well as the improvements of existing lines. . . . The law is accepted with favor as the remedy of the most pressing disabilities and the provision for the most urgent and immediate necessities of Italian commerce.¹

It is a significant fact that in Belgium where government ownership has been in existence the longest of any country in the

¹ W. Bayard Cutting, Vice Con. Milan, *Con. Monthly Report*, Oct., 1908.'

world, there is relatively the greatest abundance of railways, there being twenty-two miles of railway for every one hundred square miles of territory; and in Saxony, where it has been next longest in existence, the railway mileage is next in abundance, being nineteen miles to the one hundred square miles of territory; and both countries are under government ownership.¹

The following is but one of many examples of cases where governments have been compelled to step in and take hold of enterprises in the railway line which were much needed, and in the supplying of which private enterprise has been found timid. Private enterprise stands about looking for immediate profits. The government takes into consideration the public good only.

When the Japanese took possession of Formosa in 1895, there were only 62 miles of railways, extending from Kelung to Shinchiku, and this road was poorly constructed. In 1896 the Formosa Railway Company was organized with a capital of 17,000,000 yen (\$7,470,000), and plans for construction of a trunk line extend-

¹ *Monthly Consular Report* for Nov., 1907, page 107.

ing from Kelung in the north to Tokio in the south. Owing to a scarcity of money in Japan the stock was not sufficiently subscribed for, and in 1897 the Company was forced into liquidation. In 1899 the Japanese Diet sanctioned the issuance of Formosa government bonds to the extent of \$14,342,400 for constructing the road. . . . The entire road extending from Kelung, the northern port, 247 miles to Tokio, the southern port, was opened to traffic on April 20, 1908. . . . Up to the year 1906 the receipts did not cover running expenses; since then the receipts have covered running expenses, plus interest on bonds. It is expected that the gross receipts for the fiscal year 1908 will be more than \$1,500,000 in the event of which there will be netted a good profit.¹

In South Africa, Australia, and to some extent in South America the enterprise of the government in extending lines into unsettled countries is being very favorably demonstrated. Speaking of the formal opening of a railway built by the government at great expense into a very thinly populated section of the country, Consul Cunningham from Durban reports:

¹ Julian H. Arnold, Consul Tamsui, Oct., 1908.

The recent policy of the Natal Government has been to offer the greatest possible encouragement to the development of the land and the construction of this line is only the carrying out of the policy.¹

As more fully shown elsewhere, the government, as the owner of railways, is much more careful of the life and limb of the people than are private owners.

Notwithstanding the reports that Belgium is suffering from a deficit in her railway account, she has important betterments under consideration.

Concerning the abolishing of all grade crossings in Belgium which is being considered by the Ministry of Railways, it is estimated that the entire sum needed to meet the expenses that such a measure would entail would be \$60,000,000. At present there are as many as 6125 grade crossings on the Belgian lines, and in most cases where it will not be possible to change the direction of the roadway it will be necessary to arrange to carry it either over or under the railway line. For changes that do not demand either the elevation or depression of the roadway,

¹ Edwin S. Cunningham, Consul at Durban, *Con. Rep.*, Oct., 1908.

and are therefore the least expensive, it is estimated that about \$4000 will be needed for each crossing. For such crossings as require elevation or depression of the roadway above or below the track it is calculated that the outlay will not be less than \$200,000 for each crossing.¹

In the *Con. Rep.* of Dec., 1908, will be found a summary of the report which the Ministry of Industry and Public Works recently made to Consul Alfred A. Winslow at Valparaiso. It shows that the Chilian Government now owns and operates 1589 miles of railway. That it has under process of construction 612 miles. That plans are drawn for 210 miles additional, that plans are in the course of preparation for 391 additional miles, and that it has projected 928 miles additional, and has under consideration about 100 miles more. The cost of the railways and equipment under construction will be about \$100,000,000.

The Russian Government has decided to double-track a large part of the trans-Siberian railway.²

¹H. Albert Johnson, *Con. of Liege*, Nov., 1908.

²P. E. Vollmer, *Con. at Tsingtau*, in *Con. Rep.* of March, 1908.

There is no country in the world where government ownership exists that the policy to bring about complete nationalization of the railways is not being consistently pursued. Japan is busily engaged in taking over the private railways that are left in the hands of the companies. Italy is negotiating to the same end. Although the railways will revert to France in a very short time, that country has begun negotiations for their turning over at once. One large system, the Northwestern, has already been taken over.

It is not an easy matter to get the details as in the following instance, but the same policy is everywhere in full force except in those countries which have not yet been converted to the new order of things.

According to a local journal the government of Austria-Hungary has purchased the following private railways, located chiefly in Bohemia:

| Railway | Miles | Price |
|--------------------------------|------------|--------------------|
| Staatseisenbahngesellschaft | 849 | \$44,000,000 |
| Oesterreichische Nordwestbahn | 390 | 14,000,000 |
| Südnorddeutsch Verbindungsbahn | 177 | 6,300,000 |
| Elbetalbahn | 193 | 11,200,000 |
| Böhmische Nordbahn | 217 | 5,600,000 |
| | <hr/> 1826 | <hr/> \$81,100,000 |

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By taking over these various lines the government has increased its lines by 1826, making a total of government mileage of 8422 miles. . . . By obtaining these private lines the government has obtained control of all the northern traffic lines to the river Elbe. It will also give the government better facilities for reaching the water outlet at Trieste.¹

Even China with all her shortcomings is not far behind in the procession.

China has not only virtually ceased granting concessions but is continually striving to regain those already granted. Especially is this true of the railways, and there is a general advocacy of the redemption of the loans thus far raised for railway construction. The amount required, over \$75,000,000, for the redemption is too great at present to bear, but the advocates of the measure assert that the combined earning power of the roads would be sufficient to meet it.²

On recommendation of Taotai Chan Tien-yu, the director and chief engineer of the Peking-Kalgan line, viceroy Yuan has now decided to build the proposed Peking-Jehol railway with

¹ Joseph I. Brittain, *Con. at Prague, Con. Rep.*, Nov., 1908.

² Thornwall Haynes at Nanking, *Con. Rep.*, Nov., 1907.

Chinese government funds without foreign or native assistance, and as the Yuehuanpu is in favor of the proposal it is believed that it may be carried out after the completion of the line in 1908. The name of this new railway is to be called the Ching-Je Tieh-lu, which is to be built with the net profits of the imperial railways of North China in the same way as the before mentioned Peking-Kalgan line, which is costing about \$5,500,000 for construction and rolling stock.¹

The government of most countries where the railways have been taken over by the public are putting forth every effort to operate the railways in whole or in part by electric power. In the monthly report for June, 1907, will be found a very instructive and readable report of an electric railway which is to be established between Genoa and Milan. The road is to be eighty-five miles long and to cost \$47,000,000. There will be nineteen tunnels, one of which will be twelve miles in length. It will be double track the entire length, and local trains will stop at all stations and take up passengers for local trips

¹ J. W. Ragsdale, Con. at Tientsin, *Con. Rep.*, Nov., 1907.

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and for the purpose of carrying them to express stations.

Consul Talbot J. Albert from Brunswick reports that the German Government is undertaking to operate many of the government railways by electricity. Two short lines will first be tried, and if that is successful, then the Leipzig-Halle line will be operated by electricity. One of the economies will be the generation of power in coal fields where coal is produced that is not of a grade that can be used on locomotives.¹

It is announced that the government has commissioned an American electrical engineer to study the feasibility of changing the first and second sections of the state railways for use of electrical instead of steam power.²

The enterprise which Switzerland is exhibiting with its newly acquired railways is more fully set out in a recent consular report.

Since the acquisition of the majority of the railways by the government the roads have been greatly improved in their physical condition and in service. Schedules have been adjusted

¹ *Con. Rep.*, July, 1908.

² Alfred A. Winslow, *Con.* at Valparaiso, *Con. Rep.*, March, 1908.

and systematized, freight and passenger rates have been equalized and reduced. . . . If a surplus accumulates rates are adjusted to equalize the revenues and expenses, thereby giving the people the benefit of lower fares. This method insures the maintenance of a high standard of excellence in the service, and prevents the application of revenues of one department of the government to the use of the other. As organized under the present management the government railways of the Swiss Republic are successful and prosperous—the travelling public is apparently satisfied with the service and the government is gratified with the result.¹

Up to a few years ago private railway companies supplied the wants of the public in this country very well, but ever since the effective movement for control of the railways commenced complaints have been voiced of their inability to secure needed funds and then came the car shortage and other shortcomings of the private managers. So long as the promoter was given *carte blanche* to water the stock of his enterprise as much as his conscience or the gullibility of his proposed investors would

¹ Consul Mansfield in *Monthly Con. Rep.*, May, 1908, page 118.

allow, and when in addition he could work up aid in the way of taxes, the private companies succeeded in exhibiting great enterprise in building railways. So long as all sorts of side corporations for special service could be organized *ad libitum*, things went well enough, but the time soon came when such transactions began to be questioned. Investors not only became backward about taking such fictitious values but became frightened with the investments of that kind which they already had on hand. When it gets right down to putting up money for first class service, on a business basis, in which everybody knows there is not the exorbitant profit that is found in the speculative operations, then private capital becomes very conservative. That was the trouble in Italy. The government reserved control of the charges of the private railways and exacted that they keep the same so low that only a reasonable per cent. of profit could be paid in dividends. When private investors get down to taking a small percentage of profit they want government or municipal bonds or farm mortgages. The money was not forthcoming for an enterprising policy of development on this basis.

If the investor is cut down to a small per cent. then he is content to let the public take but a modicum of enterprise. This is the history of private ownership everywhere.

About ten years ago the practices which had encouraged the great energy of our private railway managers began to be of doubtful expediency and were threatened by the officers and the courts. It was then the private companies began to fall behind the times. J. J. Hill, in his open letter to Governor Johnson (1906), said in substance that at that time they were five years and five billions of dollars behind the times. It will soon appear in this country that our growth and development will have to wait upon the slow methods of private enterprise. The private railways were over two hundred thousand cars short two years ago. The Interstate Commerce Commission says that they are letting five thousand cars a month go to the junk heap. What will be the condition of our affairs if, when prosperity returns it comes, as it generally does, with an increased volume of traffic and increased demands for improved service?

J. J. Hill declared in the letter above

referred to that there was no possibility of the railroads raising any considerable portion of the money that was absolutely necessary to put the tracks and rolling stock in condition to properly handle the business on hand at that time. In 1906, corn lay on the ground all winter. Granaries and elevators were filled to overflowing with grain that the railroads were powerless to move. Potatoes rotted in pits and caves, because cars could not be had with which to move them to market. There was one grand scramble for every empty car that could be found in the yards. People suffered with cold in the Dakotas because the railways could not find cars with which to ship them coal. Could the government do worse than that? Will the people go through another experience like that without making a change? Does any man see any reason why the same condition, more than likely in an aggravated form, will not be upon us as soon as things get normal again?

Possibly it will be said that this was an abnormal condition and that this country will not soon be again as prosperous as it was in 1906 and the first six months of 1907.

But the car shortage was bad enough at certain seasons of the year as long ago as 1904. If the condition was an abnormal one, that is the salvation of private ownership in this country, for if it was not, and prosperity returns with the old volume of business, and increases proportionately, there will be but one remedy to which the people can resort.

If the private railways of this country are more energetic than the government would be, then why do we not enjoy the vacation tickets which are given on nearly every government owned railway in the world? This is a certain kind of ticket by which the passenger purchases the right to ride on the railways for a given length of time. It is like purchasing a short time pass. The theory of these rates is that when a man wants to take a vacation he will spend about so much money in railway fares. The government gives him the largest possible service for what money he has to spend on his vacation. The government is nothing out and the citizen is much the gainer by the transaction. Do not fail to keep in mind that the greatest profit which a government can make is in securing better citizenship. The govern-

ment can not earn dividends any more than a farmer can make money by charging himself exorbitant prices for the use of his own teams. If the government realizes any profit over and above expenses it has simply earned dividends from itself. The people have paid the freight and passenger rates and they own the surplus. Any profit must therefore be in increased prosperity of the people.

This is the reason why the people build schoolhouses and hire teachers and run schools free instead of making those who use them pay for them. The government could give mail service free just as well, but for some reason it is thought best to make that institution self-supporting, or more properly speaking, to let the users pay most of the expenses of operating the machinery of that particular public service.

There is nowhere in the world any evidence that the government is not much more enterprising in catering to the wants of the traveling and shipping public than are private companies under the same or similar circumstances. The evidence is all the other way.

I contend that we shall not realize what railway enterprise means in this country

until the government takes hold of the present systems and begins to apply to them the push and enterprise which has characterized our postal system and which has made it the marvel of the world. The fact is, that wherever government ownership has superseded private management, there has been a marked improvement in service and enterprise.

A wish to make up for lack of enterprise has often been the motive which induced governments to take up the enterprise in its early stages. This was the case with canals. It was the case with telegraphs. It was still more noticeably the case with railroads.¹

¹ Hadley, *R. R. Trans.* page 238.

CHAPTER VI

WHAT SUCCESSFUL GOVERNMENT CONTROL WOULD MEAN

THE perennial hope of the opponent of government ownership is that government control will in time prove successful. In England there is perhaps as perfect a system of government control as can be found anywhere, and yet the abuses of which we complain here are found in that country in much the same degree. We have up to date made but very slow progress in this reform, and the best that can be hoped for is that government control will at some distant future time be made passably effective. It must not be taken for granted that the present active campaign to that end is certain of immediate success. Men of middle age only can recollect promising movements for the control of railroads which went astray for some reason. The cause of this is that the

people who run this country may be almost said to carry it as a side line only.

The principal business of the farmer is the raising of corn and wheat and other farm products with which to feed not only the hungry mouths of this country but of much of the rest of the world as well. The business man has the exacting labor and the absorbing duties of management of his trade to take first place in his thoughts. Others have the minerals to mine, the forests to fell, and a thousand other things to do, all of which appear to be equally essential to the keeping up of that ceaseless grind of production which must meet the daily demands of human life. At each recurring Presidential election the people turn out pretty well and express their sentiments creditably upon the questions in which they are at the time interested, but the machinery of self-government is a little loose as yet. The people can not vote upon measures directly. They can only select officers who, they believe, will follow out their will, but the instructions are not recorded or embodied in any more definite form than the cautiously drawn ante-election promises of political platforms. There are

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all sorts of loose wheels between promise and performance in this sort of machinery. The era of plain, straight dealing with the people has not yet come. The people are, to a certain extent, to blame for this. A plain, outspoken man, who says just what he means, is not yet the strongest candidate for President. He cannot compete with the man who puts on dignity, talks high sounding generalities, and makes no plain, straightforward promise of what he intends to do. So long as this sort of thing is stronger with the people than plain, straightforward dealing there will be more or less uncertainty about what the candidate represents, and of this sort of condition the railways and other corporations will, of course, get the better of the outcome. When the people let it be known that no man can get their votes who does not speak out and say what he means to do on all important questions, then one of the strongest guns of corrupt legislation will be spiked.

Once in four years a pretty fair vote is gotten out to the polls, and upon the occasion of the intervening congressional election, only a small majority of the people get out.

They take a little time, but not much, to read the papers, and a few of them go out to hear a political speech or two, and then on election day they take a few hours off and go to vote, and then hurry back to their corn fields and the mines and the shops and the places of trade and forget all about it.

But the private railway managers and owners, and other directors and agents of the corporations and individuals similarly interested, put their whole mind upon the political situation every day in the year and not a few nights. Once in a while the people engage in an uprising, and then for a time the reform is carried forward with a resistless current. Sometimes—very often in fact—such movements go too far. The private railway manager is really pleased to see these movements, when successful, carried to extremes. It gives the courts a grand opportunity to strike a blow for the corporation that sounds like the Sermon on the Mount.

After every period of enforcement of laws against the corrupt practices of the railroads the private managers know that there will be a period of inactivity when they can make

up for lost time. Each uprising of the people, however, and, in fact, nearly every Presidential election, marks a step forward, and it must be conceded that we are approaching, at least slowly, toward fairly efficient government control.

Without undertaking to demonstrate that as control becomes gradually more effective the investor in private railway stock will become more conservative, let us suppose that the government has passed along from one step in the right direction to another until the time has come when no watering of stock is permitted. Let us suppose that the officers who at this time have little or nothing to do with the operation of the railways but to whom the largest salaries are paid for their services in stock manipulation, strategic maneuvering in the matter of competition, legislative control, etc., have been deposed. Let us suppose that rates have been reduced until the dividends return but five per cent. on the investment. Under such circumstances will the privately owned railways be as enterprising as the people will demand? Will they extend railways into unsettled portions of the country, and will

they give that character of service which the ever increasing refinement of the people will exact?

In this connection we must recollect that when we older people were boys we made our own sleds and bored the holes with a hot poker when a brace and bit were not at hand. The boy of to-day buys one and pays a dollar to a dollar and a half for it. In those days the farmer was indeed a fortunate man who rode in anything but a farm wagon. He perhaps could afford a spring seat. A few years later the farmer commenced to ride in carriages, but what would our forefathers say if they could come on earth now and see the farmers, many of them, and perhaps soon all of them riding about in automobiles!

The writer can well recollect when his Sunday suit was made by his mother of home-spun "jeans" with colors of about the fading qualities of the logwood with which he colored his Easter eggs. A boy thus dressed now would be a curiosity sought after by the museums. In a thousand ways our style of living has changed and all in the same direction. In nothing are the people advancing faster than in their transportation

wants. Every new service and every new fast train is immediately patronized to its capacity by the people. The serious question is, Will the private party, when his investment is reduced to the basis of a farm loan, be as enterprising as the people will demand? He certainly will not. Already, with just what little has been done along the line of control, the economy of the private investor is being exhibited. Railway periodicals are already discussing, some approvingly and others in a spirit of criticism, the cessation of the making of betterments for the purpose of making more certain the payment of dividends. Note the fact in this connection that in times of depression the railways naturally economize, and when prosperity comes, it finds them unprepared to handle the increased traffic. The policy of economy in this country is now threatening our ability to meet the demands which may come upon us at any moment for an increased traffic. Our freight rates are so high that the railways are not passing dividends but the fear is that money for betterments and repairs can be secured in no other way. Note the difference in the policy of the countries where the government

owns the railways. Within the last few years it has been published abroad in this country that government ownership is a failure in several countries, because the industrial depression which was felt there as well as here had left the government-owned railways with a deficit. This has been particularly stated to be the fact in Italy, Switzerland, and Belgium. Note then, the difference in the policies under the two systems: niggard economy and increased freight rates in this country, renewed enterprise and reduced rates in each of those countries.

Already many railways and special service companies have discharged solicitors. The whole system of soliciting is an economic loss and should be abolished.

The private investor will attempt to increase dividends by economizing. It will be here just as it was in Italy, as hereinbefore related. In England the railways discriminate in many cases against home industry in the interest of building up a foreign trade. In this country the Interstate Commerce Commission has been asked to enjoin the low export rate. Take, for instance, the export

rate on flour and wheat. The London miller can ship his wheat from Chicago or west of there for that matter, at a less rate than the New York miller, and as flour commands a higher rate than wheat, and export flour a lower than home consumption rate, the advantage is greatly to the foreigner. None of these conditions the Commission found could be changed or ameliorated because the railways are private, money-making corporations. We shall have an economizing in all ways and the using of every advantage of the private railway power for the making of dividends to the complete ignoring of all other more important interests of the whole people. The investment in railway stocks and bonds will be on the basis of loans. Close-figuring inspectors will be sent about to see if the investment will pay dividends. Long before we have reached anything like competent government control this penurious policy will have forced government ownership upon us. The railways will use the advantage of trade conditions here as in England for their own money-making ends and against home industry.

Our system of railway transportation is

like the blood in the body. It must be kept fully up to the needs of the body. Any other industry can be cramped and it hurts only that particular trade, but if transportation is inefficiently managed, every business and enterprise and every individual is injured. It must be responsive, actively, sensitively, and capably responsive to every upward movement of our volume of commerce, otherwise we shall be retarded in our growth. It is because of its close relation to all other business, it is because of its being the vehicle of all other trades that I say it is a government function pure and simple.

When we have reduced the railway business to a science and have it so arranged that there can be no graft, no watered stock speculating, is it conceivable that the captains of industry who have so arduously devoted their energies to railway speculation will remain in the business after it has been thus placed on a first mortgage basis? Will they not seek fields of more profitable speculation?

Just imagine a new railway projected through some unsettled country under such conditions. No government aid, no water

in the stock, no bonus of bonds, no town site company speculations, no threatening to pass certain cities by, if a donation is not made, no bridge companies to be organized with "arbitrariness" paying enormous dividends, no special service and fast freight lines, in short, no graft of any sort or kind. Nothing but such freight rates as will pay a certain per cent. on the investment.

In the first place, there is no country which will develop a business which will pay a reasonable return on the investment except where the country is largely settled up. When a railway will pay a fair per cent. on the investment from the first, it is because the railway has been a public necessity for many years. How would such a proposition be taken by the private investor? Suppose, for instance, the postal service were in the hands of private parties. How would the proposition to introduce the rural delivery have been received by them at the time the government first undertook it? How would they receive a proposition to extend it at this time? I submit to the thoughtful reader that we ought to have had extensions in the service and we ought now to have an increased

capacity for the accommodation of a volume of traffic that is sure to come upon us rather suddenly, and that long before government control has become what we expect it to become the condition of private railway parsimony in the management of our system of railway transportation will have become unbearable.

CHAPTER VII

GOVERNMENT OWNERSHIP AND FEDERAL PATRONAGE

NO argument seems to be so powerful against government ownership as the allegation that the increase in the number of Federal employes would dangerously augment the influence of the administration in power. There is no reason for this, and it finds no support in the experience of nations which have tried it. It has been tried under all forms of government from the referendum-governed Republic of Switzerland to the despotism of Russia. Perhaps the commonwealth of Australia is more nearly like our country in conditions and people than any other where the system has been tried. Nowhere has any complaint of this character been heard, and on the contrary the evidence is that no such objection has materialized after the adoption of nationalization.

Speaking of the Australian railways a special agent of this government reported as follows:

The administration of the government railways open to traffic is in the hands of the Commissioner of Railways under parliamentary enactment of 1904. His responsibilities are fully defined and the practical operation of the department was removed as far as possible from the control of the politicians.¹

Speaking of conditions in Switzerland our consul reports as follows:

The law governing the Federal railways positively prohibits the possibility of political influence entering into the management.

The same is true in Germany.

Political abuses and dangers so strenuously predicted by the objectors to public ownership of railways have not materialized in Germany. The spoils system is unknown there. No member of Parliament can get a friend or constituent a place on the state railways through political influence. President Hadley says that

¹ Harry Russell in *Monthly Con. Rep.*, Jan., 1907, page 100.

political difficulties have not been experienced in the administration of Prussian railways which he thinks 'is chiefly due to the superb organization of the civil service.' There are no paid lobbyists, no subsidized newspapers. Neither graft nor politics has any place in the administration of its railways.¹

It seems strange that so many prominent men who profess themselves believers in the principle of government ownership halt at this assertion to sustain which there is no evidence of any kind whatever. Our postal service, our judiciary, and our school system are all faithfully and honestly conducted. A government under the same conditions is honest and efficient in proportion to the intelligence and probity of its citizens. No one will gainsay the assertion that no nation excels us in intelligence of its people. But here is a stop, a hesitation, and the timid citizen does not have so much to say about the probity of our people. He is like the son who went west and after a time wrote his father—"I came to this country poor but honest. I am poor yet." The secret of all

¹ Parsons, *Arena*, Feb., 1907, page 230.

this is that such as give this argument weight are men who do not believe in the honesty of the American people. What have they to sanction this lack of confidence? In the first place, they see our legislatures controlled by lobbyists in too many instances. They see both Houses of Congress handicapped with effete customs and unreasonable rules and regulations. They see political intrigue triumph over merit, and find everywhere a sentiment that there is something more powerful than probity in securing political success?

But all this is in the political life of our people. In private life every person with one voice will say that there is nowhere on earth a purer citizenship.

Our nation is one of splendid impulses. Time and again our charity for the unfortunate of our own and other countries has called forth the plaudits of the world. Why then this cringing fear of ourselves in the field of government ownership where nations of so much less ability have achieved such signal successes?

Here is the secret of the phenomena of public distrust. We have in our midst nearly

as many miles of railway as all the other nations of the world. There are nearly two thousand different companies with hundreds of thousands of officers. They are distributed in nearly every county and township in the entire country. While they are formed into many corporations, they are so interwoven that they are as one in every political interest. From Boston to San Diego, from the Gulf of Mexico to the Canadian line, in every hamlet, in every canyon of the mountains they have their minions. Take any county seat, and they have picked out one or two of the very best lawyers and retained their services. In every State they have high-salaried men who do little but look after their political schemes. These men are in touch all the time with the local politicians. This is the sum total of our shortcoming in the matter of official integrity. Truly our American citizen can say: "The head and front of our offending hath this extent, no more." Remove the influence of the private railways from our politics and we shall at once see the purest government on the globe.

Under private ownership, the employees of

the railways for the most part feel that it is to their interest to stand for what the private managers want. If they forget about it, their recollection is refreshed at every presidential election without fail, and at any other time when the election affects their interest. Under government ownership, the employees would stand for what their new master, the people, want. Millions of stockholders, the most thrifty and influential constituency in the world, now vote with the private railway manager. Under government ownership, they would be for honest and capable management, for in that alone their security would lie. Under private ownership, the best legal talent of the country, with hardly an exception, is with the pet political schemes of the private railway intriguers. Lawyers perhaps will always be in the majority in the law-making bodies. Who can estimate the powerful effect of releasing them from the service of the private railway companies? Most men have the greatest reverence for the courts. The private railways have, in many instances, unduly influenced the courts, and in the others have ignored their mandates in a way

that would have brought any individual into the dungeon for contempt, It has been many, many years since the highest court in the land declared the Trans-Missouri Freight Association a conspiracy against trade and decreed its dissolution—but a “gentleman’s understanding” took its place the next day, and the decree of the court has never had the slightest effect in removing the evil. Remove the private railway influence from our politics and we shall at once bound into first place among the nations distinguished for honor and probity.

The last resort of those who hold to this view is to assert that our city governments are corrupt. They say this is the one conspicuous example of the failure of self-government. This is true only of the larger cities. This is partly due to the fact that in them are congregated all the lawless characters which are in the country, and partly to the interests which the saloons have in city politics. Even in the worst-governed cities the business of the school district, generally coextensive territorially with the city, is honestly and most capably administered. This is also partly because of the importance of the

matter of education. It is a fact that the more important functions a government exercises the more vital good government becomes to the citizen, and the more lively interest he takes in securing honest and competent officers.

Every loyal citizen ought to feel proud of, and have faith in, the capability and honesty of a nation of people who under such trying circumstances have achieved the distinction in every branch of business, public and otherwise, which has marked our first century of progress and which is sounded in no uncertain note the world over except at home. We can not have pure government so long as we let the temptation to corrupt our officers remain as it is now. We can not have pure politics so long as a powerful body of men are permitted to exercise a government function so vital to our very existence. We can not have probity and high ideals where a few men tax for their own profit every one of our eighty-five millions of people.

CHAPTER VIII

IS GOVERNMENT OWNERSHIP SOCIALISM?

THE opponent of the system declares that government ownership is socialism pure and simple. Let us see about this. The men who opposed the free-school system said the same thing of that institution when it was first established, and there are some persons yet living who can remember when the man who had no children was much enraged at the socialistic meddling of the government with private business. He declared that the worst feature of the new socialistic measure was that he was taxed for the establishment of socialistic schools for the benefit of other people's children. But that was a long time ago, and people have to stop and think long before they can realize that the public school is in principle a private business to the same extent as operation and ownership of railways.

The carriage of packages in the mails has come upon us so gradually that we cannot realize that the government in doing this has engaged in the express business. It is hard for us to understand that in issuing money orders the government is doing banking business in the line of selling exchange. Why did the government engage in these two last mentioned kinds of private business? Because there was a demand for a cheap and expeditious carriage of small parcels in one case, and for a cheap exchange rate in the other. When the people wanted a cheap express rate, they turned to the government, and got a limited package post, which should be extended. The express companies do not dare give the low rate because it would expose their graft, and their whole scheme of exorbitant rates would fall to the ground.

A cheap exchange for the benefit of poor people who made many small remittances was needed, and the people turned again to the government. And yet there are those who will say that the government is not so energetic and accommodating as the private companies. Is there any reason why the

cheap rate should not be extended to larger packages and all sorts of commodities?

It must be conceded at the outset that we are adopting rapidly more and more of collective effort. This is particularly true of the European countries. There the municipal and state governments are engaging in almost all sorts of business which up to the last few years were considered as solely in the class of private endeavor. Theatres, tenement houses, and markets are among the latest activities of the government, street railways, telephone and telegraph, lighting, water, and other public-service lines having very generally gone long before into the hands of the municipalities. The man who has a horror for socialism cannot hope to stop the general movement all along the line. He will have to be content with turning over to the government as little as possible, and the least objectionable activities. He will have to fight the advance of collective endeavor with such concessions as will do the most to stop a general movement in that direction. He will have to do what the pioneers did when, to protect their houses from the mad flames of the prairie, they

engaged in back-firing. As things are running along now, the private railways are unconsciously doing all in their power to bring about a condition of complete socialism. They work hand in hand with the larger interests and against individualism. With their aid all the industries in every line will soon be combined in one. They give a milling and sawing in transit, and other similar rates, in order to facilitate combinations of certain industries, and to build up favored cities. In time they will have the rates so fixed that no flouring mill can exist except at such large milling centres as the private railways see fit to build up. It is to the interest of the private railways to haul the raw material as far as possible and the finished product back again to the customers.

When the private railways have succeeded in centralizing and combining all the principal industries in the country socialism will soon come, for the end of individualism will be at hand.

Certain things can be manufactured in large quantities at an economic profit, but it is quite the contrary as to others. For instance, there is no reason why small mills

should not grind the wheat and make the flour consumed in the community in which the wheat is grown. The small miller can do this with the price of the hauling two ways as his only profit. This is a distinct gain for individualism and a saving of railway equipment. In short, if the railways were in the hands of the government; if, in the language of Chairman Knapp, the price of transportation was as certain as the price of postage, and every man could secure from the railways exactly the same privileges on the same terms, would not the incentive to individualism be greatly increased? Almost every man can illustrate this by his own experience, if he is not connected with some railway or trust. Nothing would give such an impetus to private endeavor as the placing of equal opportunities before all in the matter of railway favors.

At the present time the private railways are crushing out the individual at every opportunity and lending their powerful influence to assisting the large operator and the enormously capitalized corporation. With government ownership, individualism would take on new life. Competition would again

mean what used to be its definition before the trusts made it synonymous with the street phrase "lead-pipe cinch," and the small dealer and manufacturer would take courage to enter where he is now forbidden by the decree of the trusts, and the judgment of the private-railway monopoly sitting "en banc," as the lawyers put it.

If this objection to government ownership is sincerely made, then the opponents thereto, on the ground that it is a step in the direction of socialism, should agitate the nationalization of the railways and the fixing of such rates as would give the individual the greatest possible advantage, and it could be most successfully done, for, when the government owns the railways, there is no desirable condition which it can not greatly encourage by the fixing of rates with that end in view. If the governments should purchase the railways, it would put off for decades any serious movement toward socialism.

But it will be said that we are going to have successful government control, and that will accomplish the same result. It can not be denied that if we ever get efficient government control, it will to some extent

remedy the evil, but it will never be so arranged that the farmer can secure the same treatment, when he wishes one car to ship his own product, as the line elevator company which uses many cars each day.

Rebates and secret favors, the latter powerful as the former in protecting monopoly, will be given as long as time lasts, if the railways continue to be owned by the private companies. Ingenious excuses for making certain rates that will assist the favored localities and corporations will be given that can not be proved or punished, and with many powerful means the large railway corporations will work hand in hand with the other large interests, and there is no power in the nation to do away entirely with it or even minimize its efficiency in the upbuilding of its favored friends.

The champion of the pet argument against government ownership loses sight of the fact that if it is socialism, then all the great nations of the earth are socialistic with few exceptions.

It is by no means certain, because we are going now at a rapid rate toward socialism, that it is to be the ultimate condition. His-

tory affords no more certain evidence of any one thing than that the pendulum of progress swings first one way and then another. There can be no doubt that, with perfectly fair competition, individualism is the ideal condition. After we have drifted for a long time toward collective endeavor, men may become so honest and so disinterested that justice will prevail, as it ought to, if men acted always on a high plane of fair dealing. If this condition shall come about and there shall be found any means of giving to every man the fruit of his toil without any toll for the non-worker, then no doubt the drift will be the other way, but while the tide is toward collective effort there is no use trying to stem it. The best way is to direct the course of the trend.

It is a wise man who gives heed to a general movement among the people or the nations of the earth. It is generally the part of wisdom to follow the line marked by an irrevocable decree of advancement. It is good policy not to be too far behind. That was a wise remark of Patrick Henry, who said that he knew of no way to judge of the future but by the past, and he should have added

that he knew of no better way to determine what are the duties of the present than by the experience of others. Any man who looks the situation squarely in the face and coolly takes his judgment and not his prejudices for a guide, will come to the conclusion that government ownership of railways is the policy of the future. Brush a few cobwebs out of your eyes and think what we are doing. Listen to the demand for a parcel post; hear the coming cry for a guaranteed bank or a postal savings department; view the success of the government in the public school and postal department of long standing, and its immediate success in the pure-food industry—the latest collective enterprise of the government,—and you will come easily to the conclusion that government ownership is imminent in this country.

CHAPTER IX

GOVERNMENT OWNERSHIP AND STATES' RIGHTS

THE advocates of private railways appeal to sectional prejudice and declare that government ownership would be in violation of the rights of the States. This argument is expected to be very strong in the Southern States. There is where government ownership would produce the best results. The undeveloped countries would get the greatest advantage from the change. The opposition ought by right to, and certainly does, come from the sections of the country which the railroads have built up beyond their deserts. Great railway centres would suffer. Great cities might cease to grow as they have in the past; smaller towns, cities, and rural communities would profit accordingly. Certainly many of the inducements to congesting the population of our country in certain small areas would be taken away. This would be

to the great advantage of every section of the country except the over-built cities.

Government ownership would be of great advantage to Gulf cities. There is no sound reason why the wheat and other export products of Kansas should be hauled to New York City. There is no sound reason why an east and west line of railway should have an advantage over a north and south railway if the latter traverses the shortest line to the sea. The first change which would come about would be the fixing of rates on the railways as a whole. The newer and more thinly populated States would get the advantage of that. Every step in the adjustment to the new conditions would be of advantage to the South.

There is no one thing in which we are all so vitally interested as we are in having the railways operated as one system for the purpose of the many economies and the equalization of the burdens of the business. Government ownership by the States can never come to pass. The only place where a semblance of this exists is in the ownership of the railways by the principalities of the German Empire, and there, while the nomi-

nal ownership remains in the different constituent governments of the Empire, the control and operation has for a long time been substantially central, and the drift is rapidly toward ownership by the central government. What could each state do with its control stopping at state lines? Certainly nothing, and even greater confusion and injustice than we have now under private ownership would result. The experience of the Republic of Switzerland is instructive on this point. In that country there is a general government similar to ours, the cantons corresponding to our states. Each canton is permitted to manage its own affairs, in so far as that can be done without detriment to the national welfare. The States-Rights Doctrine exists there in much the same way as it does here. There as here the necessity and the wisdom of extending the power of the Federal Government has been demonstrated.

At first the Swiss Government was very frail, much as was our Federal Government for a decade or more after the close of the Revolutionary War. There as here the people in the states were afraid of a strong national

government. There as here the rock upon which the government nearly went to pieces was this unreasonable jealousy of a strong central government. This prejudice stood in the way of many reforms, and had it not been for the same influence, Switzerland would have had government ownership a half century instead of ten years ago. As early as 1848, Stämpfli, then a private citizen, afterwards President of the Republic, and known and honored in this country as Chairman of the Alabama Claims Commission, filed with the Department of Public Posts and Buildings, a communication urging upon the government to take up the construction of railways, an industry then in its infancy. Three years later, or in 1851, the Bundesrath, a body corresponding to our National Congress, passed a resolution, very carefully worded, authorizing the appointment of a committee to look into the matter of control of the railways, and report a better method of regulating the same; and it was expressly provided that its powers should extend no farther than recommending measures.

After a year's deliberation the committee, in 1852, by a majority report, recommended

that the national government be given power to purchase, build, own, and operate railways for the whole Republic. States-Rights sentiment was powerful in those days as it was here, and by a vote of sixty-eight to twenty-two the majority report was voted down and a minority report adopted, and the first section of the act passed in conformity to this report read as follows:

The construction and operation of railways within the domain of the Eidgenossenschaft is left to the Cantons, or, when suitable, to private activity.

This effectually killed the agitation for government ownership for practically nothing was done by the state governments.

When Stämpfli became president in 1862, he at once commenced to combat this error very vigorously. Conditions were never so bad there as here, but the people became dissatisfied with private ownership, or rather began to long for the advantages which had accrued to their neighbors by the nationalization of the railways of all the surrounding countries, and Stämpfli was powerful enough

to induce the purchase of certain stock by the general government.

The first transactions of this character were with the Northwestern Railway and were consummated in 1887, the year when we passed our Interstate Commerce Commission law, and the year, it will be remembered, when the principal nations started the taking of the railway census which was completed in 1888.

This policy, which was in violation of the act of 1852, was carried forward slowly and cautiously because of the fear of arousing the jealousy of the states.

About the year 1890 a similar arrangement was made with the Jura-Simplon Railway, and by 1892 the national government began to act more aggressively and submitted to a referendum vote the proposition of allowing the government to go forward in the policy to the extent of acquiring all the railways in the Republic. The proposition was defeated by a majority of substantially 200,000 in a total vote of about 500,000. It looked to many persons as if government ownership was a thing of the far distant future, if it were ever to be possible in Switzerland, but

such was not the case. Outside and all about the little Republic government ownership was growing rapidly in popularity. Ten years of return to private operation had disgusted the people of Italy. Germany was fast completing the acquisition of all of her railways. Discussion of the advantages of national ownership soon converted a great majority of the voters, and the impracticability of state ownership had been thoroughly demonstrated by the failure of the states to take advantage of the act of 1852.

In 1897, the Bundesrath, relying on and voicing the change in public sentiment, passed a law, the first section of which was quite different from that passed forty-five years before. It was as follows:

The Federal Government may purchase on its own account, under the name "The Federal Swiss Railways," all the Swiss Railways which, because of their economical or military significance, serve the Eidgenossenschaft, or the larger part of the same, where they can be acquired without making disproportionate sacrifice.

Within the time limit under the Referendum law the matter was submitted to a

popular vote, and this time government ownership was indorsed by a larger vote than that by which it had been defeated five years before. Although negotiations had progressed almost to the point of a full understanding between government and the private owners, it took from two to three years to accomplish the transfer; but Switzerland has been operating all but a small part of its railways for over eight years with nothing but the most gratifying results, as will be seen by reference to another chapter, where extracts are given from recent reports of the success of government ownership.

There is no activity in which all of the states would find such a community of interests as that of the management by the national government of their systems of transportation.

If government ownership is to come, then the discussion of any but national ownership is not to be thought of, for the states could never hope to bring about anything but the most distressful confusion by state operation. To own the roads by states and operate them by national government would be an empty honor only. To operate them except as a

whole would bring few, if any, of the benefits of public operation.

The settlement and development of the Southern States will be a slow and tedious process unless the government takes the matter in hand. There is no section of the country to which the advantages of government ownership should appeal with more power than to the Southern States. Situated near the markets of the world, private enterprise has let them struggle against all sorts of difficulties, working out for themselves the most difficult of problems, assisted by the railroads only when their business promises dividends. Nothing more could be expected of the private owners for they are in the business to make dividends. That is the only way in which they can raise funds to proceed. But the government would take up the problem of developing the South in a broader spirit. Take the example of Italy. In the chapter referred to above, note the fact that over 900 miles of railway are to be built in order to develop territory. Could such enterprise have been expected from the private owners? Certainly not.

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Look at the plans of Russia for settling Asiatic territory, and the success which has resulted from the enterprise of South African and Australian Governments.

CHAPTER X

HOW GOVERNMENT OWNERSHIP AFFECTS THE LABORING MAN

IT is amusing to listen to the inconsistent arguments upon this branch of the subject by the advocates of private ownership. In one article we are told that with government ownership the great army of government employees would run this government with a high hand. That argument is intended to scare the farmer and the merchant and the ordinary citizen until he will bear with any number of evils rather than fly to others which promise an oppression worse than that from which the revolutionary fathers delivered us. In the same connection we are told that the government always pays higher wages and requires shorter hours of labor, and that the increased pay of the railway wage-earners under government ownership would make

rates of freight and passenger service much higher.

When you have read this kind of argument until you begin to see the section boss and all the trainmen and freight handlers enthroned and ruling this country like the Czar of Russia under government ownership, you will get relief by reading the arguments addressed to the laboring men. Take as an example the recent pamphlet issued by H. F. Newcomb of the Washington, D. C., bar. He contends that under government ownership the railway men would be the meekest and most oppressed people on the face of the earth. On page 8 he says the government is "an arbitrary employer," that the laborer on railways under government ownership would not dare ask for an increase in wages, for fear of being guilty of treason. He calls attention to the fact that in 1903 when the government employees on the Holland state railways were engaged in a strike for higher wages, the States-General by a vote of eighty-one to fourteen passed a law making such conduct a misdemeanor, and thus ended the matter.

He calls attention to the fact that the

wage of mail carriers was fixed in 1887 by the act of January 3d, and he says "the pay of mail carriers, for example, remains precisely where it was fixed more than twenty years ago." In short, after reading the arguments addressed to labor, one might make up his mind that under government ownership the railway laborers would be down-trodden serfs scarcely daring to claim their souls as their own.

Of course neither line of argument is fair or speaks the truth. The subject is not one of conjecture. There are plenty of statistics from which plain statements can be made and from which reliable references can be drawn. It is a fact that the governments of the world pay better wages and give shorter hours to railway laborers than do private companies. The difference is not great, but it amounts to a difference of possibly ten to fifteen per cent., taking into account the advance of wages and shorter hours.

But this is not the greatest advantage to the laboring man. The government seldom stops work when there is a financial flurry or even during an industrial depression. It does not at once discharge laborers right and

left as soon as there is a falling off in business. What labor wants more than anything else is steady employment. What injures the laboring classes more than low wages is the recurrence of depressions, when many are thrown out of employment. There is not a laboring man in this country who dreads so much the smallness of his wage-earning as he does the constant fear that he may at any moment be thrown out of employment. Just as soon as there are evidences of an industrial depression, the railways begin to discharge laborers, thus reducing the purchasing power of the country and making matters worse, which in turn induces them to throw others out of employment, thus accelerating the movement on the principle of perpetual motion. At the same time the prices of stocks and bonds fall and the purchasing power of the investing class is lowered, and what is still more potent, private owners are frightened into greater economy than the circumstances justify.

On the whole, the private interests centred in railway property and permeating the whole structure of commerce and cover-

ing the entire country is like a diseased nerve bringing dire distress to every part of the nation at the slightest prick of disturbance. Not only this, but it is most frequently the whole cause of the disturbance.

If we have good times and good crops and prosperity appears to have come to stay, we have always to fear this one danger. First, there is a car shortage and such conditions will surely send railway stocks to a record-breaking price. When this is well under way, a reaction comes and down we go, as in the fall of 1907, our industrious habits, our intelligence, our prosperity, and our good crops being the cause of our downfall under private ownership of railways.

There have not been many strikes under government ownership. Sometimes the government is not quite just, but the experience in railway operation has clearly demonstrated that labor is perfectly satisfied with the government as a master. Labor gets slightly increased wages and somewhat shorter hours, but above all it gets steady employment.

What is the effect on the public? It is just as favorable if not more so. Notwith-

standing the fact that the government pays higher wages and gives shorter hours it can give reduced rates in freight and passenger carriage.

Notwithstanding the fact that the railways of Europe cost more than twice as much as those in this country—in fact nearly three times as much—the freight and passenger rates are about the same in Europe as here, with the advantage in passenger rates very much in favor of the government-owned roads, because they give so many different kinds of cheap rates for the accommodation of all classes of people. Take Austria, for instance. The government paid about \$140,000 per mile for its railways. Here are the passenger rates, as reported to this government no longer ago than November, 1908. Third-class fare, which is the popular class in Europe, is 0.98 of a cent, or less than one cent per mile. It should be remembered when considering this low rate that there are no long trips in Austria as in this country. This low passenger rate is given for short rides. The second-class fare is 1.64, or a trifle over one and one-half cent per mile. First-class fare, which is used by the wealthy

classes and foreigners, is but 2.93 cents per mile.¹

The per ton rate of freight charge in Europe is slightly above that of this country, but when the length of the haul is considered even the opponents of government ownership admit that for the same service there is not much difference between the rates in Europe and in this country. When we consider the fact that the right of way of most of the railways of Europe cost more than the roadbed and all equipment, including terminal facilities of most of the roads of this country, and that the actual physical value, based upon the cost of duplication is nearly three times that of our railways, the wonder is that freight and passenger rates are not at least twice as high in Europe as they are in this country.

Government ownership has brought this about. Austria-Hungary set the most radical example when about the year 1888 that country made a reduction of at least one-third from the price which had obtained under private management.² The reduc-

¹ Joseph I. Brittain, Con. Prague, *Mon. Con. Rep.*, Nov., 1908.

² *The Railroad Question*, by William Larrabee, p. 54.

tions were from twenty per cent. on some, articles to eighty per cent. on others, and some authorities put the average reduction at more than thirty-three per cent.

The government-owned railways have always been in the lead in lowering rates. Notwithstanding the provision in the act which authorized the Swiss Government to purchase its railways, forbidding the lowering of either freight or passenger rates below a point which would insure paying for the roads in forty years, the roads have made substantial reductions in charges for freight and passenger service within the short time that the government has had possession of them.

Thus it is clear that while the government grants advanced wages and shorter hours to its employees, it is able to grant a much greater line of favors to the patrons in the way of a larger and cheaper service, and this is possible only because the government observes many economies, the most important of which is its ability to borrow money at a nominal rate of interest.

The next greatest economy, which makes these advanced wages to employees and

reduced rates to patrons possible, is the economy of operating the whole of the railways of the country as one system. Auxiliary to these main economies are those mentioned in Chapter II.

CHAPTER XI

THE MORTALITY OF PRIVATE OWNERSHIP

THE *Saturday Evening Post* recently said editorially:

We believe this question must presently be raised. Can railroad slaughter be abated save through government ownership? Railroads are now managed exclusively for profit. Killing of passengers does not materially lessen profits, so it goes on.

When we hear of a large judgment being rendered against some railway corporation we are likely to think that it will make a considerable difference in the profits for the year. We should take up some book of statistics and learn that the aggregate of such damage is less than one per cent. of operating expenses of each railroad, or about what they pay for oil and waste. To install the block system

or to observe any of the many precautions in vogue where the government owns and operates the railroads, would entail many times the cost of paying damages for persons killed. It is therefore much more economical to kill people than to save lives. Hence the killing goes on at a rapidly increasing rate every year. In 1897, the number of passengers killed on the railroads of the United States was 222. In 1907 the aggregate number of passengers killed had amounted to 610. But it will be said that the number of passengers carried has greatly increased during that period. The number of passengers carried in 1897 was in round numbers 489,000,000, and in 1907, 813,000,000. Therefore the number of passengers carried has increased seventy-seven per cent. and the number of passengers killed, one hundred and seventy-five per cent.

The private railway companies have taken better care of their employees than of passengers and other persons. This is partly due to the enactment of laws relating to the adoption of safety ap-

pliances such as protect employees, and partly to the fact that the safety of employees is of more importance to the railroads than the safety of the public.

It is not so easy to require the adoption of regulations and devices for the protection of passengers and the public. The devices which protect employees are comparatively inexpensive to install and are generally an economy in the end, but those devices and precautions which protect the public and passengers are, as a rule, expensive to install and entail a constant cost of operation. Notwithstanding all these laws there has been a great increase in the number of employees killed in the same period. The number has risen from 1693 in 1897 to 4534 in 1907, an increase of nearly one hundred and sixty per cent.

The following table gives the number of employees killed and injured as compared with the number employed, and the number of passengers killed and injured as compared with the number carried, and the number of other persons killed and injured:

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| | No. of employees employed on all the roads for one | | No. of passengers carried on all the roads for one | | Other persons killed | Other persons injured |
|------|--|---------|--|---------|----------------------|-----------------------|
| | Killed | Injured | Killed | Injured | | |
| 1897 | 486 | 30 | 2,204,000 | 175,115 | 4,522 | 6,269 |
| 1898 | 447 | 28 | 2,267,000 | 170,141 | 4,880 | 6,167 |
| 1899 | 420 | 27 | 2,189,000 | 151,998 | 4,674 | 6,255 |
| 1900 | 399 | 26 | 2,316,000 | 139,740 | 5,066 | 6,549 |
| 1901 | 400 | 26 | 2,153,000 | 121,748 | 5,498 | 7,209 |
| 1902 | 400 | 23 | 1,760,000 | 93,900 | 5,274 | 7,455 |
| 1903 | 364 | 21 | 2,104,000 | 84,400 | 5,973 | 7,917 |
| 1904 | 357 | 18 | 1,602,000 | 78,500 | 5,973 | 7,917 |
| 1905 | 411 | 20 | 1,137,000 | 70,640 | 5,805 | 8,710 |
| 1906 | 387 | 19 | 2,220,000 | 74,000 | 6,330 | 10,241 |
| 1907 | 369 | 19 | 1,432,000 | 67,000 | 6,695 | 11,839 |

The word "Passenger" in these tables means, of course, one trip. If you ride on a train ten times during the year you count as ten passengers, and to ascertain your individual risk you should divide the percentage above given by the number of times you ride during the year.

In round numbers, the railroads of the country kill annually twelve thousand persons. This is an increase of nearly one hundred per cent. in ten years. If an earthquake or other calamity should destroy half so many lives, there would be sorrow throughout the nation. If there were prevalent any

epidemic which took half so many lives every year, the government would spend millions to lessen its severity, if money could accomplish the object.

Here is an epidemic coming upon us now. It is the fruit of graft and incompetency, and yet we are so kind to the dear men who have so mismanaged our whole vital system of transportation and who defraud us of millions every day of our lives that we hesitate to make them adopt the modern means in use everywhere on government-owned roads for the lessening of the terrible epidemic for which their sordid selfishness is responsible. All this sets in a weird light the mighty power of the railroads in legislation.

It is not necessary to go into statistics to show that no such ghastly record is made where government ownership prevails. Erving Winslow in the *Boston Herald* for January 15, 1907, sums up the situation very correctly as follows:

Government-owned railway systems, whether or no they may exceed roads controlled by private parties in the cost of service, fulfil their functions with reasonable order and dispatch.

They do not kill people. Many government-owned roads have been operated for a year without the loss of a single life. Last year three persons lost their lives on the government-owned roads of Switzerland, none of whom were passengers. Two were trespassers who wilfully violated the law, and the third was drunk.

Another well known and reliable author puts it as follows: "We kill more people in a week than the railways of the German Empire do in a year."¹

¹ Prof. Frank Parsons, in *Arena*, Feb., 1907.

CHAPTER XII

FREIGHT RATES UNDER GOVERNMENT OWNERSHIP

FROM this chapter will be eliminated any consideration of all those economies which the government could make by discharging lobbyists, superfluous officers, by eliminating the enormous expense of traffic associations, and by applying the proceeds now used in elections and controlling legislatures and public officials to legitimate uses, in refusing to pay rebates, and by reducing the interest rate from about five to three, or perhaps two and one-half per cent. The reader's attention will be directed to the lower general level of rates which the government could establish.

As we have seen, there are two distinct systems of fixing freight rates. That is to say, private companies undertake to get the largest revenue for the least service, and so

long as they remain private enterprises they can not be denied this privilege. The railroads have found out what rate they can charge and receive the greatest income from freight rates and haul the least tonnage of goods. Accurate statistics are kept all over the country. Whenever the railroads commence to haul a larger amount of a given commodity into any given territory, they gradually raise the price to see if there is not a point where they can haul a lesser amount of the commodity and receive the same aggregate return or revenue. When the point is reached at which the movement of that product is arrested, until the net revenue shows signs of decreasing, even at the increased rate, they halt. If the rates are too high, they reduce them slightly until the point is found where the largest revenue is realized, and this is called "charging what the traffic will bear," as the private railway manager understands the rule.

Rates all over the country have been established in exactly that same way. If the government were undertaking to make exactly the same return on the investment it would do the opposite. It would continue

to lower the rates until it found the point where the greatest revenue would be obtained, and this, of course, would mean the giving of the very largest service which could be rendered for the largest revenue. This would be the least that the government could do in case it were trying to make money. In fact, however, the government would put the rates not down to the point of greatest return but to that point where the railroads would be self-supporting only. There would be a tremendous difference in freight rates, if the government simply undertook to fix such freight rates as would return the largest revenue for the largest service. When the freight rates were reduced to a point where the railroads would be simply self-supporting, then it is evident that a still greater reduction would have been made.

It is the history of all successful government institutions that the lowest charge for which a service can be rendered is most quickly ascertained by starting down and working up. We have systematically put our postage rates below the paying point, thus undertaking by a low price to build up

the business rather than let the growth of business force the rates down. This course has some advantages and no disadvantages. It builds up the service in the shortest time possible. To undertake to let the growth of the service force prices down is a slow and tedious process, and sooner or later the charge must be put below the paying point, for a time at any rate, in order to be sure that the bottom has been reached. The volume of freight business is much more elastic than most people believe.

Where freight rates form the larger part of the price of a product, as in the case of coal in the agricultural countries, a very considerable reduction, which the government would certainly make, would cause a tremendous increase in the traffic. Even where freight does not constitute a very large part of the price, any reduction would increase the volume greatly. This is particularly true with reference to agricultural and food products. Crop conditions are never the same all over the country. If potatoes are worth forty cents at the Missouri River and fifty-five cents in Chicago, no potatoes will move, for there is about that difference in

freight. The high price of potatoes will curtail consumption in Chicago and their low price will increase the consumption at the Missouri River points, and frequently it has caused them to be fed to farm animals. If freight rates were only ten cents per bushel instead of fourteen cents, this commodity would move freely and accommodate both communities. If fourteen cents is the lowest price at which potatoes can be moved by privately owned railways, no complaint can be made, no matter what the inconvenience to the people may be. If it is not, a great injustice is done. The private roads charging "all the traffic will bear" maintain higher rates than the government would give, charging the lowest price that will bring the same returns. We can not, so long as we let the operation remain a private enterprise, legally deprive them of the right to run the roads as a money-making proposition, no matter what the public inconvenience may be. If the government owned roads, we could take the public convenience into account.

Every reduction in freight has been followed by an unexpected increase in business.

A convincing example of this is found in the fact that a reduction of two or three cents a bushel on the export freight rate for wheat is known to be necessary to keep up our large exports of that commodity. A recent radical reduction of rates in Denmark produced an astonishing increase in business, and a very slight reduction in New Zealand has produced an unexpected increase in the volume of traffic.

Just where the low point is can be ascertained by experiment only. Many people who would assent to all these propositions are afraid of a deficit. This objection will be met and answered in a later chapter, but it might be suggested here that the principles involved are being applied to many successful business affairs.

Every one knows that, in starting a great daily newspaper, as a rule the owners carry a deficit for years in order to put the business as quickly as possible on a paying basis. The man of small means may start out in a small way and build up a business, earning a profit all the while, but such is a long, trying, and dangerous method of starting a daily newspaper. When an individual

or company undertakes to place a new article on the market, the modern method is to spend thousands of dollars in advertising and preparing for business before one penny of profit is realized. The timid man would start in a small way, but he would stand more chances of failure than success, and if he should succeed, it would be after long years of hardship and toil.

Your Uncle Sam is not a small or timid investor. The great consolation for your Uncle is, as will hereafter be more fully shown, that he takes no chances, for he speculates with himself. Such a thing as rapidly lowering rates, so as to get them to the lowest possible point, is, of course, out of the question so long as railways remain in private hands. The government has no legal or just right to order any reduction of rates which will make a deficit even possible. Such a thing as taking into account, as the government could if it owned the railroads, the necessities of the people, the freest possible distribution of food products, the encouraging of industries, and the developing of backward territory, is also entirely out of the question. As our

methods of living become more intricate and our population more dense, these things become of greater importance, and the people of this country are entitled to have the great public matter of the interchange of commodities placed upon an economic basis which will bring the greatest results. Not only have the private railroads failed to fix their schedule of the rates upon the true economic principles hereinbefore stated, but having the power and independent right of fixing rates so as to secure the largest income, the railroads have so manipulated the privileges in many cases as to force a great economic loss upon the people. Wherever that is possible, they encourage manufacturing at a place as remote as possible from the raw product. When they haul the live stock from Nebraska to Chicago and bring the manufactured product back which is consumed by the producer, they get two hauls where they should have none. On that part of the manufactured product which is consumed in Chicago and the East, they get the advantage of freight rates on the waste product. It is for this purpose they have given such favorable rates to the Minneapolis

millers. Otherwise the small miller all over the country would grind the wheat of each neighborhood, the flour consumed everywhere would be the home product, and the railroads would lose two hauls, one on the wheat to the milling centre, and the other on the flour back to the consumer.

These are but instances of a thousand schemes by which the privately-owned railroads are managed for the making of dividends and against the best interests of the people.

Passenger rates under government ownership are always low. The government recognizes the convenience and educational influence of travel. Only the wealthy people of this country travel to any great extent for pleasure to-day. Nothing so lifts a man out of the rut into which the hard routine of his life places him as an occasional trip. Wherever the government operates the railway, it always encourages travel by low rates and many conveniences. In most instances the government issues tickets such as are described by our Consul at Belgium:

The Belgium State Railways have for sale

tickets which enable one to travel continuously if they desire for the specific time thereon specified within the limits of the country. For instance, a five-day ticket costs 20 francs or \$3.86, and a 15-day ticket 40 francs or \$7.72. During the life of the ticket it serves as a pass and it is only necessary to show it upon request.¹

This ticket has not only proved to be a great convenience to the public but likewise profitable to the government.

Government railways are universally profitable. The reader will remember that when the governments of Australia purchased the railways from private parties and took them for the most part out of the hands of receivers, private enterprise had utterly failed with them. They were the most unpromising investment any government ever made in purchasing railways. In the year of 1904 the state railways in Australia yielded a net profit of \$19,761,646, and in 1905 of \$22,745,508.

Having thus ascertained the general principle involved in the question, the reader will

¹ *Monthly Con. Rep., House Doc.*, vol. 59, 1904, p. 248.

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in the next chapter find some interesting information regarding the experiences of those nations where government ownership has been tried.

CHAPTER XIII

ARE FREIGHT RATES HIGHER UNDER GOVERNMENT OWNERSHIP?

THE advocates of private ownership assume that they have answered the question involved in the title of this chapter irrefutably in the affirmative when they show that the per ton rate in Germany is 01.23 per mile, and in the United States is 00.76 per mile. At first glance this would appear to be quite a difference in favor of the privately-owned roads, but there are several differences in conditions, and more differences in the manner of estimating the per ton mile rate in the two countries which will, when taken into consideration, put quite another construction on this argument in favor of the privately-owned railroads.

In the first place, all government-owned railway lines in Germany carry express as regular freight. A higher charge for service

similar to that rendered by our express companies is made, of course, but the advanced charge for this part of the traffic is figured in with the regular freight business and makes the rate appear correspondingly higher. The same is true of the fast freight business. The latter is on all government-owned railways carried as a part of the regular freight service and nominally enhances the per ton mile rate. The German railways carry their own materials and supplies free. This is possibly true in many cases in this country where the material is carried only on the railway by which it is used.

Again, the railways of this country are paid an enormous sum for carrying the mails, while the national railways have to carry the mails for the government free, as a matter of course. The government's receipts for that service are in the postal department.

What makes perhaps the greatest difference is that in Germany there are no such long hauls as we have in the United States. The average haul in Germany is 70.7 miles, while in the United States the average haul is 244.3 miles. These long hauls, too, are often in train loads of single commodities

or of a few commodities having a common destination. There is still another difference perhaps more important than the long haul in comparing the two per ton mile rates. Statistics show that in Germany a very much larger percentage of manufactured goods are hauled, and in the United States a correspondingly larger percentage of agricultural and mining products and raw materials.

It will be remembered, of course, that valuable manufactured articles pay a higher rate than bulky and cheap commodities. But even this is not an enumeration of all the differences. In this country a large per cent. of the traffic does not take the shortest route. On government-owned railways everything is shipped the shortest possible distance. These seven differences more than make up for the advantage as expressed in the per ton mile rate. There is no recent author who does not admit that the per ton mile rate as a basis of comparing the charge in two countries is deceiving, and can be made valuable, if at all, only after comparing carefully the difference in conditions and methods of doing business. In *American Railroad Rates* Judge Noyes, Presi-

dent of the New London and Northern Railway Company, says on this subject:

But we can not accept the comparisons of average charges as correctly showing the real difference between American and European rates. They are by no means so great as indicated. Differences and averages show real differences only when due consideration is given to the dissimilarity of conditions. These are the important differences in the rate situation upon the roads in this country and those of Europe. . . . On the other hand, European railroads carry a larger proportion of manufactured goods and high-grade traffic. They also carry the express business.¹

He calls attention to the fact that in Europe the railways collect freight in many places as the express companies do here. After discussing the difference in conditions, he arrives at a conclusion stated in these words: "Charges upon shorter distance traffic and small shipments are not materially different in America and Europe."²

Prof. Frank Parsons makes this strong

¹ *American Railroad Rates*, p. 185.

² *Ibid.*, p. 186.

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statement with regard to the freight rates in the two countries:

After studying government freight rates on the ground and comparing them with American rates for similar distances and shipments, I found that the German per ton mile rates on local traffic are generally less than one third of ours.¹

It will be remembered that Belgium was the first country to adopt, and the only one in which the government took hold of, the business of railroad building, and constructed all roads on a system devised by competent engineers. It has built stone bridges and made all permanent improvements except the abolishing of the remaining grade crossings. We ought for that reason to find there the best side of government ownership, for private companies have had little opportunity to water stock and load the enterprise down with their mistakes, and, on the other hand, the government has had an opportunity to exhibit either its strength or weakness in management. Here is what

¹ *Arena*, Feb., 1907, p. 251.

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President Hadley says about the freight rates of that country:

In judging the railroad policy of Belgium by results, all must unite in admitting that they are in many respects extraordinarily good. What their average rates are we have already seen. The passenger rates are lower than anywhere else in the world except in some East Indian railways. Freight rates are much lower than anywhere else in Europe. Nominally they are about the same as in the United States. Practically they are lower for almost any given service, because Belgium does not have the enormous long-distance traffic which brings down the average in the United States.¹

The comparison which affords real information on the question concerning the difference between private and government-owned roads in the matter of freight rates is obtained by taking two countries similarly situated and in which different systems obtain. In England is the best possible condition of private ownership and the strictest government regulation in the world. In Germany is

¹ *Railroad Transportation* by President Hadley, p. 216.

perhaps the best European example of government ownership. A comparison between these two countries will afford real light on the subject. Here we can not compare per ton mile rates, owing to the fact that England does not keep statistics showing the per ton mile rate of freight charges. The difference is so great, however, that no close estimating is necessary to show that private ownership is in this instance woefully lacking. The following figures and statements are astonishing, but they are from different sources and must in the main be true. The following appeared about four years ago in a prominent English journal:

It costs 23s 6d (\$5.72) to transport a ton of hardware from Birmingham to London, while the rate for the same class of goods over the same distance in Germany is about \$2.25; cotton goods from Manchester to London costs per ton 36s (\$8.76); in Germany the same distance 20s to 23s,—(\$4.86 to \$5.60); general machinery from Leeds to Hull costs 25s (\$6.09); in Germany over precisely the same distance 4s 6d (\$1.09) per ton.¹

¹ *Monthly Con. Rep.*, 292 *House Doc.*, vol. 59, 1904-5, p. 220.

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The following is from the *Iron and Coal Trades Review* about two years later. Just a line is given here but the article is quoted more at length in another chapter.

It may be said that these are not important differences, but what is important is that the German railways must carry these goods over two hundred miles for about \$1.22 per ton, whereas in England it costs from twice to four or five times that to carry it one hundred miles.¹

Freight rates are so high in England that it has become a serious industrial problem whether the merchants can pay them. This condition would not have come about but for the introduction of government ownership in all the surrounding countries. If Germany did not have government ownership and low rates, then England would not have to compete with conditions dissimilar to her own. The condition will grow worse. Occasion will induce Germany to further lower her rates. Her present advantage will teach her at some time, possibly not until induced by an industrial depression,

¹ *Monthly Con. Rep.*, Oct., 1906.

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to further lower the rate and further embarrass the English manufacturer.

It is a surprising fact that England is seriously considering other and cheaper methods of freight and passenger travel than that furnished by the railways, and the automobile and the canals are the hope of the overtaxed shipping public. The following is from one of our consuls upon this point:

The present experiment in using heavy motor wagons, capacity six tons, with a trailer carrying four tons, to carry goods from Hanley to Liverpool is especially interesting to Birmingham, whose manufacturers constantly complain of high freight rates, unfair and inequitable classifications, and autocratic attitude of the railways that act in concert, even though there is no concentration of ownership. . . . If it be found that freight can be carried expeditiously by motor wagons, the industrial situation of the kingdom will be materially strengthened. High freight rates, which seem inevitable because of the very heavy capitalization of the railways, which was due to the immense cost of their initial construction, are a serious toll on British commerce.¹

¹ Con. Gen. Wynne, *Monthly Con. Rep.*, Dec., 1906.

Such being the situation in England, we can readily believe Mr. Ackworth, who said that nine men out of ten would vote for government ownership if it could be submitted at an election to-morrow. England is feeling more acutely the competition of government railways than we do, and is in a position to locate the seat of the evil better than is the United States. No doubt the rates made by Germany are more directly aimed at England, but at the same time the same principles apply to our situation, in a degree of lesser importance undoubtedly. On the other hand, no nation on earth, unless the Australian countries, are in a position to take the advantage of government ownership as we are. Agricultural products are our chief exports. Countries in which cheap labor is obtainable are our principal competitors in agricultural lines. Making use of similar weapons to those used by Germany, our exports would be wonderfully increased.

If the English shipping public finds that automobiles or other means of transportation can be substituted for the railway, what is to become of private ownership there? So long as the private railway managers

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can force the public to pay their rates they will continue to do business, but should the other mode of transportation appear threatening, then they will at once ask the government to take over the roads and operate them.

The government does not attempt to make full interest on the investment, or if it does, the rate is so much lower on government bonds than on railway securities that the result is much the same. England can have relief any day when the government sees fit to get in line with the advance thought of Europe and take over and operate its own roads.

Having thus seen that freight rates are cheaper on government-owned roads of Germany than in this country, the question may be asked but what if rates were much higher in Europe? What if they were fifty per cent. higher? The right of way of the railroads of England cost about the same as the entire capitalization, watered stock and all, of the average railroad in this country. The First Eastern Counties Line paid \$60,000 per mile for right of way through an agricultural district. In addi-

tion to this, the railways of Europe have made betterments for the most part on bond and capital account. In this country betterments have been largely made from earnings and then capitalized.

The standard-gauge railways of Europe cost approximately \$140,000 per mile. The railways in this country cost little if any more than one-third this amount. In addition to this, nearly every railroad in Europe whether in private or public hands, is required by the government to carry the mails and render expensive military service, including the carriage of soldiers free.

It would weary the reader and serve no great purpose to undertake to show by statistics what the exact difference is between through rates under similar circumstances in this country and in Europe. If they are substantially the same, which the strongest advocate of private ownership admits, then taking into account the difference in the cost of the railways in the two countries, the advantage of government ownership is quite well established. Taking into account the difference in the original cost of the railways, and making due allowance for the

difference in the price of labor, if the railways of Europe were in the hands of private companies and undertaking to earn the same return on investment, the freight rates in this country should be not much more than half what they are in Europe.

Those who favor private ownership never mention the conceded fact that, where governments have taken control of the railways, freight rates and passenger fares have been reduced.

When Austria-Hungary made its first sweeping reduction from the rates charged by the private companies, railway experts all over the world predicted national bankruptcy. The managers of the government railways put forth, in defence of their action, a great economic truth, as plain as the noon-day sun, and yet it is doubtful if any other country in the world is yet ready to receive and act upon it. They said in substance: "It does not matter much whether we fix a paying rate for passengers and freight carriage when the roads are owned by the government. When railroads pass into the hands of the public and are paid for, all the public has to do is to pay the running

expenses. If the public makes a profit, it is their own; the public paid it and it belongs to them. If they suffer a loss, they have simply to pay it some other way. In paying the running expenses it makes little difference whether the money is raised by freight and passenger rates or by other taxes. Freight rates are a tax upon the people levied in much the same method as the tariff, which is a tax upon consumption. The main object in fixing the rates is to render the greatest service desirable. Possibly this is the service which will be rendered at a point where the railways will be simply self-supporting.

"We are simply doing what the rest of the nations are doing with their public post. They put the price of postage down to where it at first left a deficit, and are in search of that point where they can render the largest service and still maintain the carriage of the mails at substantially a point where it pays the expense of operation. They are not at all concerned if it threatens a deficit lasting over a decade or more. We are undertaking to find the lowest point at which the railways

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will be self-supporting. We believe it is a good deal farther down than most people conceive. We are going to make a radical cut and give our people quick relief instead of creeping along as the rest of you are through ages to the proper level of freight and passenger rates.

Even with these reduced rates the managers of the public railways in Austria-Hungary confidently predict that they will pay for the roads in from sixty to eighty years.

The railroads in this country are undertaking to pay dividends on billions of watered stock. They are undertaking to collect back in the way of freight and passenger rates from the people hundreds of thousands of dollars which are spent annually to control elections. They are making the people pay all the money which is diverted from dividends to the profits made by side companies. They are undertaking to collect from consumers generally millions which they pay in rebates. The government would eliminate all these things, and who can say what the result would be in the reduction of freights?

In Canada many miles of canals are owned by the government.' For several years they have been operated free of tolls. No Canadian economist will claim that the national government has lost anything by this or that the people have been burdened thereby. The only question is whether this has on the whole been a just arrangement—whether it has promoted the general welfare.

CHAPTER XIV

TAPERING RATES

THE tapering rate should not be confused with the through or long-distance rate. Low rates for long hauls are logical because by any method of transportation a long haul can be made at a lesser cost per mile than a short one, and this is especially true of railways.

Reference is made to the principle of rates tapering towards the interior of a country in order, as it were, to bring remote provinces nearer to tide water for export purposes. Like its correlative principle, charging what the traffic will bear, it is entirely illogical, but, as found by experience, absolutely necessary. In short, the whole business of transportation has such an intimate and vital connection with our prosperity, and depends for its efficiency on so many things which are a matter of con-

science, that it is no longer capable of being administered by private money-making corporations.

On February 19, 1890, the Senate of the United States passed the following resolution:

Whereas, it is alleged that by reason of excessive freight rates on lines of railway subject to the jurisdiction of the act of Congress to regulate commerce between the several States, the great section of the country lying between the Rocky Mountains and the great food distributing centres of the East finds itself unable to market its food products and obtain for them their actual cost of production, therefore be it resolved, etc.

Then follows the resolution providing for an investigation. The investigation was made in accordance with the resolution by the Interstate Commerce Commission, and their report sets forth many of the difficulties in fixing rates for the public while permitting the railways to be run as a private money-making business. The agitation resulted, however, in some relief to the farmers of the West, but not so much as would be found advisable immediately upon the gov-

ernment taking over the railways of this country.

The tapering rate has been adopted in a slight measure by the private railways. It is not done for the relief of the farmer, the miner, and the interior merchant, but for the purpose of securing traffic which they can not otherwise obtain. The object of the private railway company is obviously to create such a movement from the interior as will give the greatest profit. If rates do not taper at all, and interior products of the mines, farms, and forests will not move, they lose. If they taper as much as the people demand, then it would result in too large a volume of traffic, requiring additional equipment and reducing the percentage of profits. In this, as in all other matters of fixing rates of freight carriage, the private company applies these principles so as to secure the smallest amount of carriage for the maximum of profit.

There is still another difficulty. The private railways can taper the rate only upon the lines which are operated in unity. That is to say, rates taper from New York to Chicago and there they take a jump up

and taper west again, but they do not, as they should, taper all the way gradually from the remote agricultural districts to the seaboard. The rate on wheat from Missouri River points to Chicago, a distance of less than 500 miles, is nineteen cents per hundred pounds. From Chicago to New York the rate is only seventeen and one-half cents for 912 miles by the shortest route, or a cent and a half less, for substantially twice the distance. In other words, the per ton mile rate on wheat is substantially four mills from Chicago to New York, and west of Chicago about seven mills, or very nearly twice as much.

The Interstate Commerce Commission, in the report above referred to, made estimates showing average distances of different States from the New York market, and averages of freight charges paid by the farmer of each State as follows:

The rate on corn to New York, estimated and averaged by States, is from Ohio $15\frac{1}{2}$, Indiana $18\frac{1}{2}$, Illinois 22, Missouri $33\frac{1}{2}$, Iowa 35, Kansas and Nebraska $40\frac{1}{2}$ cents per 100 pounds.¹

¹ *I. S. C. C. Annual Report*, vol. 4, p. 52.

The average distance which surplus corn is carried to New York is, approximately, from Ohio 650, Indiana 825, Illinois 1000, Iowa and Missouri 1250, and Kansas and Nebraska 1535 miles.¹

In the form of a table calculating the per ton mile rate clear through to New York the situation is made still plainer.

| <i>State.</i> | <i>Distance from N. Y.</i> | <i>Rate.</i> | <i>Per ton mile rate.</i> |
|---------------|----------------------------|------------------|---------------------------|
| Ohio | 650 | 15 $\frac{1}{2}$ | 4.77 |
| Indiana | 825 | 18 $\frac{1}{2}$ | 4.49 |
| Illinois | 1000 | 22 | 4.40 |
| Iowa | 1250 | 35 | 5.60 |
| Nebraska | 1535 | 40 $\frac{1}{2}$ | 5.54 |

By the foregoing table it will be seen that the rate tapers slightly from New York to Chicago. At that point there is a different system of railways and the tapering effect is lost. There is some tapering of the rate from there to the Missouri River, but the distance is too short and the break at Chicago too radical to give much stimulus to trade.

The opponent of government ownership and the timid voter will exclaim that such a course would cause the railways to be

¹ *I. S. C. C. Annual Report*, vol. 4, p. 53.

operated at a great loss and what we would gain in increased commerce would be more than counterbalanced by overtaxation.

(Not at all. The lowering of rates always increases business. Sometimes, in fact, it increases the percentage of profits. But the private investor does not care to do this, for in addition to taking chances of not increasing the percentage of profits, he might be compelled to largely increase his equipment. The government is always glad to reduce the price and increase the equipment, for the main object of the public in serving itself is to render the greatest service which can be given at even a small profit. The example of Germany ought to allay any fears of a deficit on this score.

The following from the *Iron and Coal Trades Review* will give an idea of how far Germany has carried this policy, and yet the German railways pay between one and two hundred millions profit to the government every year.

We have had occasion to mention in previous issues the extraordinary low through rates from German places of manufacture by rail and sea combined to the Levant and Black Sea ports

via Hamburg, and the establishment of a special set of through rates for Smyrna and Alexandria only at the beginning of last year. The effect of these through rates is that the sea traffic is worked at the expense of the state railways which receive almost nothing for hundreds of miles of conveyance. . . . As the rates are founded on the distance of inland towns from Bremen, the great Westphalian district has an advantage ranging up to about forty-eight cents per ton according to the position of the place. Conveyance from Essen to Smyrna and Alexandria costs \$3.94 per ton all through, or less than it would cost in some cases to get it merely to the port of shipment in England. . . . From Frankfort and district, rates are about 24 cents less by the Bremen than by the Hamburg routes. It may be said that these are not very important differences, but what is important is that the German railways must carry the goods over 200 miles for about \$1.20 per ton, whereas in England it costs from twice to four or five times as much to carry it 100 miles. Whatever fault Germany commits she knows how to foster her export and manufacturing trades.¹

By reason of our long distance from

¹ *Monthly Con. Rep.*, Oct., 1907, p. 143.

countries owning and operating their railways as public institutions and in the interest of the highest possible trade activity, we can possibly withstand this competition for a considerable time, but it must be remembered that Canada on the north is entering the field with increasing activity, and it should also be borne in mind that the longer we wait the higher-priced our railways will become and the more similar will be the conditions in England and this country as described in the preceding chapter.

CHAPTER XV

THE UNSOUNDNESS OF SOME OF THE ARGUMENTS AGAINST GOVERNMENT OWNERSHIP

THE position of the private railways would be stronger if they would admit that they have a nice thing which they would regret to give up. They can not conceal the fact that the railways are a paying investment. If they were a losing venture, the private owners would not be so opposed to parting with them. Their solicitude for the people is not a strong support to their other arguments. It is the railway managers who say so much about this government not being strong enough or honest enough to properly handle the railways as other nations all do. It does not come with a good grace for the private railway managers to say this. Their influence has not been for the bettering of conditions in this respect. The very partisan

argument of the recent volume by Prof. Hugo R. Meyer is an argument for, instead of against, government ownership. Few of his contentions impress the thoughtful reader as valid against the system of nationalization.

A still more recent utterance of the same character is the paper read before the American Academy of Sciences at Philadelphia by W. A. Armond. It is not so partisan as the argument of Prof. Meyer, but is very much the same in the unsoundness of its logic. Mr. Armond says:

Yet if government ownership is to come, the determination of the millions of rates for the greatest mercantile nation on the globe must devolve upon one body of men, be the number or official designation what it may. Involuntarily we recoil at the bare thought of such unlimited power inhering in one body of officers under a government which calls itself free.¹

The argument should be stated thus: Yet, if government ownership is not to come, the determination of the rates for the greatest mercantile nation of the globe

¹ *Annals Am. Acad. of Sci. of Phil.*, vol. 39, p. 350.

will soon devolve upon a small body of men, be their number or official designation what it may. Involuntarily we recoil at the bare thought of such unlimited power inherent in any body of private men under a government which calls itself free. This is particularly true when this small body of men have a direct financial interest in manipulating the rates.

In another place he calls attention to the tardiness of the government in the transaction of its business, inferring therefrom that the government would not be able to attend with proper promptness to the details of running its railways on government account. Curiously enough he calls attention to the fact that at the time the article was written the popular branch of Congress was under the iron hand of a set of rules and a Speaker who, with almost the autocratic power of the Czar, presides over the destinies of eighty millions of people.

It is generally believed that the private railway influence in this country is behind that very order of things. It is the general belief that the private railway managers could say the word and the Speaker would be

glad to abandon the rules and the rigid application of them.

Mr. Armond asks why the government employees can make freight rates better than the experienced private railway expert. He asks, is there any magic in a United States uniform? No, there is no magic in the transaction at all. It is a matter of plain business. The man who now makes rates in the interests of the private owners, enabling them to make the most on their investment in the ways of dividends, would in all probability be the man who under government ownership would make rates in the interest of the whole people and so as to render them the largest possible service. It would not be a question of magic. It would be a question of motive. Indeed it is to be relied upon that the men who have exhibited such wonderful ingenuity in promoting the selfish interests of the private railway owners of this country would make the government railways of this country the wonder and the envy of the world.

Even Germany is not down to the correct science of government railway operation. She has properly gotten far away from Bis-

marck's plan of a distance tariff, which was never a correct theory, but she should discard it entirely. She has undertaken to make her railways pay large dividends, which is a short-sighted policy. They should be run like the post-office and package post systems at about the cost of operation. Our railway experts would put the government railways on a correct basis at once. For the most part, the men who do the work of this sort are not the real managers, but are men strictly on salary, and they would go at their work with a deeper interest if it were of that higher standard in which they would be working for the whole people in sympathy with and not fighting the masses all the time.

Here is a strange statement in the same article:

If there is one desideratum for a shipping country and the world of trade it is a system of freight rates that shall be flexible and adapted to a thousand and one conditions of business.¹

The flexibility spoken of has been used in this country for the purpose of restricting

¹ *Ann. Am. Acad.*, vol. 39, p. 346.

trade in most cases. It is this fact which makes the operation of the railways a government function. There are, as he says, a thousand and one flexibilities which are demanded by trade. These flexibilities should be used to encourage trade. They are now used and must be under private ownership to make money.

The writer speaks of such a huge monopoly being in the hands of the government. A much more dangerous thing surely in the hands of private railway corporations. But the most strange argument and one never before advanced is that under private ownership in this country we can throw a railway into bankruptcy and wipe out its capital. This he proudly asserts can be done in this country and cannot be done in Germany or in any country where they have government ownership. "This process, drastic and severe as it is to individuals, has nevertheless been of inestimable benefit to the country at large."¹

This argument needs no answer. Bankruptcy is at no time and under no circumstances a blessing. Repudiation is under no

¹ *Ann. Am. Acad. of Phil.*, vol. 39, p. 348.

circumstances just or right. The only suggestion of advantage is that perhaps in some cases the railways have been reorganized at a lesser capital account than their cost or real value. The people of this country do not want anything for less than it is worth. It is abhorrent to them to think of any class of investors being robbed in order that they may have a public service at less than cost. There are no arguments against government ownership which, when studied carefully, are not, in fact, arguments in its favor.

Mr. Armond voices the fundamental position of opposition to government ownership when he says the people have faith in free government as far as it has been tried, intimating that a republic is not equal to the higher administration of government. We frequently hear it said that government ownership is all right under a monarchy.

CHAPTER XVI

RAILWAY CONSOLIDATION

THIS chapter presents a question which requires the deepest study. Consolidation and organization, which is only a modified form of consolidation, are the order of the day. Not many years ago what was then called a trust or combination was a rare thing except among railways, manufacturers, and in large jobbing industries. It is different now. In every hamlet where there is more than one store there is, as a rule, an understanding between them. In every town and city there is a grocers' organization and the dry-goods dealers, the hardware men, and the lumber dealers with hardly an exception have their organization or a "gentleman's understanding" at least. Labor organizations are getting stronger every year, and even the farmers have formed trusts in some sections of the country, and organiza-

tions of fruit and melon growers have their agents, who sell the products of all and in some cases make the purchases for all. This consolidation and organization is having its effect on civilization, and it is destined to have a still greater significance, if persisted in with the accelerating speed of the last few years. Where there were once a hundred or more stores, a huge department house has arisen. Before the advent of this new product of modern consolidation, every clerk knew his master by name and generally personally. Now, hundreds of tired young men and women hurry into the monster store, they register on a machine their number or it is taken by a clerk and not one of them knows more than possibly the name of the corporation for which he or she works. They know the foreman of their department, but he represents a mysterious proprietor, grasping, miserly, and rich beyond the servant's power of comprehension.

The avenues of private endeavor are rapidly diminishing in number and still more rapidly in importance. What is to become of our boasted individualism, if this tendency does not soon cease,—and there is nothing

to indicate any departure from the new regime?

The manufacture of every article of commerce in a large way is an economy which appears to be necessary to render possible our intense existence and expensive habits of living.

In certain lines of manufacturing there is a difference of quality which helps to hold back consolidation, but these are all being rapidly standardized, and soon every manufacturing industry will go like the steel business into one large combination, and after that may we not expect the consolidation of all these factories into one concern, the formation of a trust of trusts?

It is the duty of every man, especially a citizen of a self-governed country like ours, to study these conditions and study them carefully and disinterestedly. What does this seemingly irresistible tendency to consolidate mean for the future? If we look only to the present, we are like the pilot who looks to the right and the left but keeps no lookout ahead. Sooner or later he will come upon the rocks.

Whatever may come of the tendency to

consolidate in other lines, the consolidation in the lines of transportation systems will go on until all the railways of the country are operated practically if not in fact as one road. The reason for this is one not only of economy but of necessity. The service can not be rendered even in the crude way of the private corporations excepting by operating all as one. That consideration which even a private dividend-seeking corporation must give to the public convenience makes consolidation inevitable.

Every consolidation, even for the most innocent purposes of economy and convenience militates against individualism. When consolidation goes further—as it always does—and seeks to centralize management and ownership and to eradicate competition, its influences are fatal to freedom.

There was a time when nations levied prohibitive tribute on every article of import commerce, and at one time England forbade foreign vessels entering her harbors except with passengers. If every nation had thus secluded itself, our present civilization would not be known. If that policy should be adopted to-day, our present enterprise

would not save us from barbarism in a few decades.

Free trade is the greatest inducement to commerce, and commerce and intercourse socially are the mainsprings of higher civilization and advancement in everything that makes for greater happiness and security in person and property.

It may be a little hard to theoretically differentiate between competition in selling articles of commerce and competition in the matter of shutting others out of business. The fact is, that competition, in so far as it relates to prices, never was a good thing. That which was mistaken for competition and which is a real agency at all times for good is enterprise in selling. That has always had an uplifting tendency, and the incidental intercourse, socially and in a business way, was a force in the same laudable direction.

The individualism which permits a man to go to work at seven in the morning and quit at six in the evening, and holds out to him the splendid future of drawing his wages, sometimes in checks on the company store every Saturday night, is not one that will be

much of a mainspring to rapidly advancing civilization. In fact, there is no individualism about such conditions. But consolidations are here and they have come to stay, for a time at least, and the question is, What is best to do about it?

There can be no question that individualism is essential to development, but individualism does not necessarily mean that a man must have an opportunity to get into any sort of mercantile business and give outlet to his ambition along some professional or business line. Without the stimulus of ambition men would certainly degenerate very rapidly, but that ambition need be along no particular line. To make men ambitious you must first make them contented and reasonably prosperous, or remove them at least from a condition of constant fear of poverty. Under government ownership railway employees could be placed on a list for regular advancement on merit. That would furnish the incentive to ambition. But that which would help to make them ambitious more than anything else would be the certainty of employment. As it is now they are constantly in fear of an industrial depres-

sion, when they will be thrown out of employment by the thousands. They hold their positions now at the will of arrogant employers. They are in danger of being discharged on account of enemies who misrepresent them, and they observe that advancement depends more upon fawning upon some superior than upon merit.

All this would be changed and some system of advancement depending upon markings would be substituted for the arbitrary methods of many employers under private management. The man who works for the government does not feel so much like a slave as does the man who works for a large corporation. To a certain extent he is his own master, for his vote counts for as much as any one's.

Universal individualism to the extent of making every man his own master is of course out of the question. Some will always be laboring men, content or, rather, unable to do otherwise than work for others. When there are many masters and abundance of avenues of employment, individualism is encouraged. When there are few masters and men and women see nothing better than

the employment at which they obtain their livelihood, then a change takes place. Ambition is gone, and even their children grow up, in most instances, without hope of the future. In some of the older factory towns this is distressingly in evidence. It has not affected our civilization much, for the number of this class of laborers is small and the spots where the conditions exist are not many. The condition is spreading as the process of consolidation goes on. Free government can not last if this condition of affairs should become common all over the country.

The argument of the advocate of private ownership is that government ownership is socialism, and that only by letting the railway business remain in the hands of private parties can we preserve that individualism which is the life blood of civilization. They preach loudly of the value of ambition and of leaving everything that can be done by the individual to him in order that our American manhood may maintain those qualities which have so distinguished us the world over. At the same time, and hand in hand with every great consolidated enterprise, in partnership not only with the Standard Oil trust, and the

steel and lumber and milling trusts, but in sympathy and co-operation with every large employer of labor, they are destroying the individual and building up the corporation. They are narrowing the field for individual effort and bringing a greater percentage of our people from positions of master to that of servant with bewildering rapidity.

A master of a small business may be disagreeable, and if so it may undo him, but a master of a modern trust may be as arrogant and despotic as he pleases, and his position is above the reach of any power, as the situation is now. Indeed, the larger the institution and the more men he has under him, the more cold and unrelenting must be his rule. It is not a pleasant thing to say but it is true, that the master of twenty years ago who was reputed to be severe would be considered a good Sunday-school mate for Moses if transplanted with every one of his faults to the position of manager of a modern trust.

It is not a good thing to have men of such majesty and power among us. The dignity they put on belongs only to the sovereign American people. They have usurped the

prerogatives of government. By taking over the railways the government could make the lot of the railway laborers more like living. They could be given assurance at least of steady employment, for the government never stops work of a public nature for the short period of depression. That is the time to do work, when it can be done cheaply, and when the people need employment, and when it is a necessary precaution to prepare for returning prosperity, which always comes with additional demands for transportation.

Those who operate the railways will of course of necessity remain servants. The government, by the power vested in it could encourage much or little the consolidations in other lines. For instance, there are a great many articles of manufacture which can not be shipped economically even "knocked down." Milling is an industry naturally adapted to be done in a small way. The milling in transit rate has not been powerful enough to drive all the little millers out of the business. We can not tell how far reaching will be the effect of government ownership until it has been tried.

There is some question whether the car-

load rate is a good thing for the individual. Certainly the reduced rate ought to stop at one car. There are strong arguments why it should be made lower on a car lot, for the reason that the handling is so much more economical, but we have seen that the cost of the service in most cases should be ignored. Just a slight change in the schedules would disorganize almost any concentration of business or manufacture. If done at all, it ought to be undertaken before vested interests have obtained too strong a hold.

A great deal depends upon sentiment. As it is now, a man imagines that his competitor is getting an advantage in freight rates when many times perhaps he is not, but the effect is much the same as if he were. If men actually knew that all were being treated exactly alike; if the freight charge was as certain and as stable as the price of postage stamps—and that it is where government ownership prevails, as Chairman Knapp of the Interstate Commerce Commission asserts—it would be a great stimulus to private enterprise.

Consolidation in railways is one which we can safely regard as inevitable. A con-

solidation melting into one is more rational in the case of railways than in any other. Indeed it is the only logical result. This means that the government must take it over. The people will never stand for the railways being amalgamated into one and run by a few men, and that is what we are coming to in a few years.

Whenever any great public convenience shows an irresistible tendency to consolidate into one institution to be controlled by a few men, it is marked for collective ownership of the whole people. Consolidation has marked the way. There is no answering the argument that if all the railways of the country should be under one management, that single management should be the people of the United States.

It is not settled beyond dispute that the trust is a good thing. The pendulum of progress swings first one way and then another. The only argument in favor of the trust is the economy of doing things in a large way, but every economy leads to further extravagances in living, so that in the end men work harder, if anything, than they did before the advent of labor-saving machinery,

and millions more are made servants who were masters, and what is the gain?

Of course if we were to take up the defence of socialism and say that labor-saving machinery and manufacturing in an organized and large way is a benefit because it lessens the time men have to work, and gives them more time for leisure and individual effort, that would be another matter, and there would be some real economy in the thing and some sound reason for the contention which cannot be answered, but such, I take it, is not in line with the best thought of the day. May it not be that some enterprising nation, some pioneer in the new way of advancement, will point out that all this economy is false; that its benefits in the way of permitting us to go rapidly from the bicycle to the automobile and from that perhaps, shortly, to the flying machine, are more than offset by the withering up of the faculties of the mass of men who labor, and that the only thing to do is to put a stop to this consolidation of every industry? If so, the only power with which it can be done is the control of the transportation,—the one weapon with which the government can

accomplish anything in the line of controlling the methods of commerce.

There need be no argument to demonstrate that the government could favor the small factory as against the combination; could encourage the individual more than the corporation; and could encourage the local artisan as against the combination of manufacturers. It is not at all likely that the government would find it advisable to use this power of discrimination. If it did, there can be no doubt that its controlling power of discrimination would not be used to help the strong only as it now is under private management. Fair and equal advantages to all in matters of transportation, impartial treatment of the rich and poor, would, no doubt produce here, as it has elsewhere, as nearly ideal conditions as are possible in this day and in our present state of civilization.

CHAPTER XVII

THE SOURCE OF RAILWAY POLITICAL POWER

IN a general way the people appreciate that the railways have become a tremendous power in shaping the destiny of this nation, politically and otherwise, but how this condition came about and what is the source of this power they do not clearly understand. The power is derived from the fact that the private owners are in control of a government function and it has come about because the operation of transportation systems has grown into a government function so gradually that the change has been overlooked.

The people of this country have a settled notion that our liberties are to be best preserved by individual ownership of property. They do not conceive that inequality of ownership may destroy their favorite theory. Though they see the railways of the country rapidly being centralized into the possession

and practical ownership of a few men, they still believe in the private ownership of property and have a blind faith that there is some method of railway regulation which will effectually remove the evils which they concede to be threatening. They overlook the fact that management is nearly as essential to individualism as is ownership. The ownership of stock in a company is from a sociological standpoint not the equivalent of individual ownership of a corresponding part of the assets of the corporation.

The reason that private ownership of property makes for better government is because the man who has the property must look to the state for protection of the same, and is therefore certain to take a greater interest in government and will make a better citizen. The reason it makes for better civilization is because the man who has accumulated property is made ambitious. His possessions make him energetic to accomplish more, and he is in a position to give his family advantages which they would not otherwise enjoy. This all has an uplifting tendency, the power of which has not been overestimated. The man who puts

his possessions into a corporation which some other man manages, is apt to take that other man's opinion on many matters. Therefore the condition is not the same as if he owned and managed the property himself, being under obligations to no man for the success of the venture. This is a disadvantage of corporations, and yet corporations are indispensable to our modern business methods and mode of life.

The need for corporations grows out of the fact that as men advance in civilization, their adoption of the principle of collective effort grows greater. It is a grave error to suppose that the corporation is useful only as a means of permitting persons to invest a certain sum of money in a large undertaking without assuming any personal responsibility. That is the distinction between a corporation and a partnership, and it may even be true of small companies, but there are many objects which are too large for any individual and which can be successfully accomplished only by the collective endeavor of many people. Every example of collective endeavor is a miniature form of government. As a rule, no certain territory or distinct class of people

are interested in an undertaking of this kind. If a corporation is organized to build a flouring mill, though it may expect to draw trade from a certain territory, no definite community of interest can be said to exist. Some persons living closest to the mill may prefer to patronize another or may use flour manufactured elsewhere. When, however, it is proposed to build a drainage ditch for the purpose of draining a certain territory, then a certain definite community of interest can be figured out and the organization takes the form of government called inartistically a "quasi-public corporation."

It is a curious and amusing eccentricity of the law that in some states the courts hold that this community of interest will not afford a constitutional ground for organizing such a district, and that there must be in the law something which permits the organization for the protection of the public health, and there must be a formal showing in the proceedings to establish the ditch, that the public health will be endangered by reason of the lack of drainage. When, however, the taxes are assessed, they are levied according to the agricultural benefits to the

land. If the public health were the real foundation for the improvement, then all the surrounding country should be taxed according to the benefit to the health of each part of the community.

Therefore, whenever an object sought to be accomplished by collective endeavor is of general interest to all persons in a given territory, it is a proper function of government. The government need not necessarily under all circumstances step in and take over the undertaking, but if only a part of the people interested associate themselves together and in any way impose upon the others, then it is the imperative duty of the government to take over the enterprise. Applying these principles to railways, is there any other thing outside of education in which every citizen of this country is so vitally interested as in transportation? Commerce depends upon it. It is the life blood of every industry. The merchant, the manufacturer, and the laborer—in short, every man, woman, and child in the country is at its mercy. The rich and the poor are similarly affected, except that the rich are more vitally interested in the quantity and quality of the

service, and the poor are probably more deeply and vitally interested in low transportation rates, for the reason that the freight charge enters into the price of everything which they buy, and as consumers their interest may be relatively greater.

If transportation is inadequate, commerce can not expand. If charges are too high, the service which should be always the limit of demand will be restricted. It is the business upon which every other depends. Clearly then it is of such general concern to every citizen that it is a proper government activity.

It is a self-evident truth that all who are interested in an undertaking should be allowed to associate themselves with the organization to promote the end. Transportation is one undertaking which it must be conceded is too large for the individual and must be accomplished by some form of collective endeavor. It is vital to everybody, but it is in the hands of a few. These few are in possession of a commodity of universal use and are permitted to deliver it on terms that will render them a profit on their own bookkeeping. Anything which is of such

universal necessity ought to be operated by the community, and ought, even on the ground that it is an article of common use, to be given at the very lowest price.

The low price of freight and passenger service is not a matter of economy only. The lower the freight rate, the greater the incentive to all other trade activities, so that a low freight rate is not so much of an advantage in direct saving to the consumer as in its indirect stimulative effect on all other trades and commerce generally.

Then again, in all sorts of private collective endeavor there is this disadvantage. The manager of the enterprise has a decided advantage over the common stockholder. He is generally selected because of his knowledge of the business and he gets to know more about it as his experience increases. This is an advantage that is inseparable from every form of collective effort, even government itself, but there is a vast practical difference in the degree of the disadvantage. In the management of the private concern there are two motives, one of duty to his associates, and the other of profit. He is ambitious to serve his associates satisfactorily,

and he is anxious to make profit for himself and the company. The public manager, or officer as he is called, does not have the incentive to make profit. The incentive is to please the public. He administers the trust imposed in him in such a way that his services may be retained. For example: suppose that ten men were to form a milling corporation, which in the natural course of business would serve themselves and fifty others. These ten men would be interested in maintaining a large toll for the reason that they would derive benefit from the charge levied on those who do not share in the profits. Under such circumstances the ten men would not observe the economy which they would if all were engaged in and equally stockholders in the enterprise. If the whole sixty persons benefited would be allowed to become stockholders, an economical administration of the common undertaking would be assured and a high or low toll would be the same, for whatever charge were made more than the operating expenses would be profit, which would be returned in the proportion in which it was paid.

Take another instance. Suppose the tax

collector were allowed to levy taxes so as to give him a per cent. of what he levied and collected from the people. Does any one suppose that such a system would be tolerated for a day in this country? That is just what we are doing with the railways. There is no form of taxation that is so universal in its application as that of freight charges. It is levied much in the same way as the customs tariff, but is of more universal application for the reason that it applies to domestic goods as well as foreign. Everything which we use or consume is burdened with the freight tax, which is added to the price.

We permit the railways to levy upon the people of this country over two billions of these taxes annually,—\$685,000,000 of which is profit, and over \$240,000,000 of which is profit over and above interest on bonds and dividends on stock. What is more exasperating is that while this would seem to be a large return on the investment, the private railways are now raising rates, not because the railways will not pay a fair per cent. of profit, but because the watering of stock and other stock-jobbing speculations have been to a certain extent forbidden, and something

to make the investment equally attractive must be substituted.

It is just as has been contended so often,—that railway enterprise from private parties cannot be expected except in return for some extravagant profit on the venture. Turn over to any set of men the prerogatives of government and they will be more powerful than the proper officers. Let one set of men collect the taxes, another own the common schools, and still another carry the mails, and with what power could the President of the United States compete with these men?

Government derives its strength from a proper exercise of its functions. If these are surrendered to private parties, the rightful authorities are shorn of their power. This is the reason why the railway men are so powerful and why they so nearly control the government of this country and shape the destinies of eighty-five millions of people. They have their hundreds of thousands of stockholders who follow the dictation of the managers, to whom they have entrusted the private property which they own but which officers of the railway manage for them. They command all their lawyers,

the brainiest men of the country, powerful for that reason out of all proportion to their numbers. They have their employees under control, but above all they have the regal power of levying taxes on every citizen and on every industry. If through either lack of enterprise or defect of judgment, or if wilfully they fail to provide facilities which efficiently move commodities, commerce withers, and as Mr. J. J. Hill says, "there can be no life or growth in individual or commonwealth." And men wonder why the railways control legislatures and are so powerful in every avenue of trade and politics.

In this connection it will be instructive to read the speech delivered seventy years ago when railroading was in its infancy. It sounds as though it had been made in this country but yesterday, and yet it was delivered by Lamartine, the French scholar and statesman in the House of Deputies on the 10th day of May, 1838.

Great God! What will be our condition when, according to your imprudent system, you shall have constituted into a unified interest with

industrial and financial corporations the innumerable stockholders of the five or six billions of securities which the organization of your railroads will place in the hands of these companies? You, the partisans of the liberty and the enfranchisement of the masses; you, who have overthrown feudalism and its tolls, its rights of the past and its boundaries, you are about to allow the railroads to fetter the people and divide up the country among a new feudality, a moneyed aristocracy. Never a government, never a nation has constituted outside of itself a more oppressive money power, a more menacing and encroaching political power than you are going to create in delivering up your soil, your administration, and five or six billions of securities to your private railroad companies.

I prophesy with certainty that, if you do this, they will be masters of the government before ten years.

CHAPTER XVIII

IS GOVERNMENT OWNERSHIP SATISFACTORY WHERE IT HAS BEEN TRIED?

IN view of the constant growth of government ownership and the great activity of national governments so engaged at this time, a chapter need hardly be devoted to answering the inquiry suggested in the above title, but the evidence is so uniform that a few testimonials will be read with profit I believe. Speaking of Australia, Chairman Knapp, of the Interstate Commerce Commission, recently said:

Within the last few months I have had occasion to meet men from both these countries who are thoroughly well informed not only as to the operation of the railways, but as to the sentiment of their people, and I was assured that the idea of discontinuing public ownership and allowing the railroads again to go into the

hands of private companies would find no support in public opinion or be regarded as one of the future possibilities.¹

Helen Page Bates said in an article about the same date and with reference to the Australian railroads:

Since then (1871) the progress of railroads has been rapid and the desirability of government ownership has not been seriously questioned.²

Daniel Marata, Consul at Melbourne, reports to the government:

It is improbable that the people will ever allow this great possession (the railways) to go again into the hands of private companies.

Our Consul, Mr. Mansfield, writing from Lucerne, reports as follows :

As organized under the present management, the railways of the Swiss Confederation are successful and prosperous. The travelling public is apparently satisfied with the service

¹ *Ann. Am. Academy of Phil.*, vol. 19, p. 72.

² *Ibid.*, vol. 12, p. 198.

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and the government is gratified with the result.¹

When the railways were nationalized, discriminations disappeared. I was not able to find a shipper in Germany nor in all Europe who knew, or had heard, or had even a suspicion of the granting of any rebate or concession of any kind by the German roads.²

Similar evidence will be found in quotations from reports of our consuls in other chapters. But the most convincing evidence that it is satisfactory wherever it has been tried is found in its universal adoption and in the growth of the system after many decades of trial, and in the fact that nowhere in the world is there any intimation of a backward step being taken by any nation now engaged in the operation of its railways. The opponents of government ownership can find no advocates of private ownership in any country where the system is in operation. There are men who are opposed to it, for men will differ on all questions, but they are not active for they find no support in public opinion.

¹ *Monthly Con. Rep.* for May, 1908.

² Prof. Frank Parsons's *Heart of the Railroad Problem*, p. 316.

President Hadley called attention in his *Railway Transportation* to certain criticisms of government ownership by high officials, but such are to be expected. They have had no effect on the progress of government ownership in that or any other country. President Hadley's book was published in 1896. Italy had returned to private management eleven years before that time. The author speaks of the work of the royal commission which in 1885 reported in favor of returning the railways to private management, as the most "thorough railroad investigation ever held in the world." He says the going back to private management was the "most decided set-back the growing tendency toward state railroad management has anywhere received." He adds:

Nothing in all this is done haphazard. When people in America or England talk about state railways it is generally guesswork. But in Italy it is the result of hard-earned experience. They have tried state railroads and private railroads and they know what they are talking about. In fact they have tried almost every possible relation between the state and the railroads. . . . When an Italian Commission

speaks of the relation between the state and the railroads it speaks from experience.¹

The reasoning of Prof. Hadley must now be applied to the other side and in favor of government ownership. Again they have spoken from experience. They tried first government ownership and then they gave that up for private ownership and now they have gone back to government ownership. Truly no other country can speak so directly from experience, and Italy's example for that reason must be most convincing next to that of Belgium.

¹ *Railroad Transportation*, Hadley, p. 220.

CHAPTER XIX

NO DANGER OF BANKRUPTCY IN OWNING THE RAILROADS

THE argument that it would be a dangerous thing for the United States to buy the railroads because it might bring it to bankruptcy, is little short of amusing. In 1907, the net earnings of the railways of the country were eight hundred and thirty-three millions. In ten years it had more than doubled, for in 1897 the net earnings were only three hundred and thirty-eight millions. In 1907, nearly every dollar was paid out in dividends and interest and two hundred and thirty-six millions must have gone to betterments or surplus. In 1901, the Interstate Commerce Commission reported to the Senate of the United States that the railways of the country could be bought for about eight billions of dollars. This was the market value of all their stock, bonds, and floating indebtedness.

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Suppose they would cost eleven billions now. The government would not have to issue bonds at over three per cent. That would make an annual interest charge of three hundred and thirty millions, making a surplus, on the basis of the net earnings of 1907, of five hundred and three millions, or nearly twice as much more. The government would not be asked any price that would not yield a profit in a very few years. If it bought watered stock and all at par, which would certainly be out of reason, there would still be a large profit in the transaction. That is what Germany did. She paid at first any price that was asked. Some investors got four times the cost of their stock. The fact has long been forgotten because the railways stand for profit to the government, even at that.

Germany at first paid for them in bonds bearing four per cent. interest, but that was when the business was new. Our government would institute the economies most of which have been enumerated, but one needs attention. The head of the railway department in Switzerland gets less than \$4000 salary. The division presidents in Germany

get \$2700 each, and the Minister of Public Works, who is the head of all the Prussian Railways, gets \$9000 a year and house rent. How would some of our high-salaried presidents like the job if our government should follow the example of other countries and establish salaries like that?

It is not likely the government would pay higher salaries, for Justices of our Supreme Court and Senators and other officers who put in their whole time for the government on equally important matters get only similar salaries.

But where would the government borrow the enormous sum of eleven billions of money? Another correlative question needs first be asked, and the two can best be answered together. Where would the private railway owners re-invest this enormous sum of eleven billions of dollars? The asking of the one question answers the other. An exchange of railway securities for government bonds has always been the upshot of the transaction. Of course the government would not undertake to make the railways pay any considerable profit, as Germany does. It would render as cheap a service as possible.

No matter who owned the railways—whether it be the government or private corporations, the consumer pays the freight. The gentleman from Binghamton may advertise that he pays the freight, but the man who gets the scales will pay an additional price, and he will in turn make his customers pay for the equipment, including freight.

When an article is consumed, like food, or burned, like fuel, or worn upon the back, like clothes, or is put to any personal use, the freight tax is there assessed and collected, for the price of the article includes always the freight charge, and the man who consumes can not pass the burden on.

None of the great owners of railroads pay except as any consumer to the cost of maintaining the railways. The people pay for them and support them. They can do it just as easily and with more satisfaction if they are run by the government. Every railroad in the country is for sale to-day. The inventive genius of the highest-salaried officers is kept busy devising means to work their stock and bonds off on the public. It is charged that this is not a *bona-fide* sale, but that the scheme is to work off the stocks

and bonds on the public at high prices and take them back at panic prices, but such will hardly be admitted and should not be charged.

The owners of any road would sell if they could get their price. It is not necessary that the government buy all the railroads at once, as Switzerland did. Let this government, if the people think best, buy one road at a time, as Germany did, and as France is doing now. There is no trouble about that course. Government ownership has existed side by side in every country since government ownership began, for even in Switzerland there is one private system left. If the railways are determined not to sell, let the government build a line or two at actual cost and note the effect. It will be in this country as it was in Switzerland. As soon as the government begins in earnest, the private owners will be as anxious to sell as the government is to buy.

CHAPTER XX

THE REAL DANGER OF BANKRUPTCY

THE argument that this country is not able to own its railways in the sense in which it is generally made is unsound. In another light it is a serious question. If this government should purchase its railways to-day, they would cost not to exceed eleven or twelve billions of dollars. Our national wealth is estimated at one hundred and sixteen billions. We have, therefore, about ten per cent. of our national wealth invested in transportation facilities. The total capitalization of the railroads under private ownership is about fifteen billions. By the scheme of rapidly raising rates the private owners are intent upon and will make the whole of this fifteen billions represent par value very soon. If the private owners are successful in raising the five billions which Mr. Hill says is necessary to increase our

present facilities to what they should be, taking into account the proportion of water that will certainly be injected, the addition to the capitalization will be eight billions, making a total capitalization of twenty-three billions upon which the people will have to pay interest and dividends. This will mean an investment in transportation facilities of nearly twenty per cent. of our national wealth. The railways will continue to compete with, and will probably be able to prevent the development of, cheap water transportation. It is not so much the debt as it is the annual interest charge which constitutes the burden. The people are compelled to pay the interest charge, and to meet the expenses of maintenance and operation of the railways to the same extent under private management and ownership as under public ownership. It appears to the individual who does not reason closely that there is no limit to the capacity of the people to pay freight rates, while at the same time he doubts their ability to pay interest on the debt which the purchase of the railways would entail. If the government should purchase the railways at this time, it could

make the desired increase in their capacity for a much lesser sum than the private owners can. It would probably require not more than two billions of dollars and this would make a total investment of not to exceed thirteen or fourteen billions of dollars, as against twenty-three billions under private ownership. Thus the investment would be nearly twice as large and the interest charge would be about twice as high, making the burden substantially four times as much under private ownership as under government operation. To put it another way, the government would not have to pay to exceed three per cent. and probably only two or two and a half per cent. At two and a half per cent. the annual interest charge under government ownership would be three hundred and fifty millions of dollars as against one billion one hundred million dollars if the private owners kept the charge down to an average of five per cent., which is about the rate on bonds and less than the coveted rate of dividends. This is a serious problem. Can the people safely continue to pay the price of transportation at the ever increasing rate? Rich as this nation is, should we not begin to fear

the consequences of this rapidly increasing burden?

Under private ownership we are getting too large a per cent. of our national wealth tied up in transportation machinery. Other nations with which we must compete are following the wiser and more economical course. Can we afford to longer overlook the economy of nationalization of our railways? There is a limit to the ability to pay these exorbitant charges, but even if there was not, our greatness as a commercial nation can only be maintained by observing the economies which are practised by our competitors.

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CHAPTER XXI

OUR GREAT MILEAGE AND THE CORRESPONDING MAGNITUDE OF THE DEAL

BUT it is said that we have nearly half the railway mileage of the world and that it would be an undertaking of such magnitude that the government should hesitate for that reason to take on the load. We have, say 220,000 miles of railway. They could certainly be bought for the average of \$50,000 per mile. The Interstate Commerce Commission, as we have shown in another chapter, reported to the Senate that they could be bought but a few years ago for a considerable less than that figure. That would mean an outlay of eleven billions of dollars. Germany has in round numbers 20,000 miles of railway. The right of way in Germany cost more than the entire equipment in this country, and her railroads are worth \$140,000 per mile. Her expenditure then amounts to over four

billions of dollars. Our national wealth is put at one hundred and twenty billions, that of Germany at forty-five billions. The per cent. of the investment of national wealth is about the same, it being in each case slightly below ten per cent.

The German railways pay a net profit of one hundred and fifty millions, ours over eight hundred millions. Which would be the safer investment? But the argument should be turned around. The fact that our railway system is so large makes it all the more dangerous in private hands. The very extent of our railways ought to impress upon us the vital importance it is to our prosperity. The magnitude of the investment and the power imposed in the managers ought to make us fear that the day is not far off when instead of the government regulating rates the railway managers in their majesty and more than regal power will dictate terms to the sovereign people of this country. It must come to this or to government ownership, for the railway managers say in one voice that railway regulation means government ownership. By this they say inferentially that we must go back to the

laissez-faire policy. They are perfectly willing that we shall regulate the time of running trains and the service to be rendered the public, but they call the line at giving the Commission or any body authority to regulate rates. Just now they are engaged in the subtle process of raising rates by the ingenious method of manipulating classifications until the desired elevation of general rates is established.

While other countries have been enjoying under government ownership of railways a constantly lowering rate for five years or more, we have been compelled to submit to a raising of rates in the face of enormously increasing net revenues, which can not be wholly obscured. When we take into consideration that the rebates which generally prevailed a few years ago have been to a great extent abolished, and that they are given now only to the very elect among railway patrons, and that passes have been largely abolished, it makes the reason for raising rates look all the more questionable. That rates can be reduced in this country and that the fixed charges of the railways

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could be so reduced that the government would still see a greater profit than the private managers now do is not open to question.

CHAPTER XXII

PROGRESS AND CHRONOLOGY OF GOVERNMENT OWNERSHIP

THIS chapter is intended to give only that part of the history of railways which will illustrate the comparative growth of the two systems. The first impulse, even in this country, was to build government railways. This provision in the first charter granted in this country will make us realize how far we have been carried away from the first theory by the power and influence of the private owners, who after a time found that the railway building, while a great public function and supplying a most pressing necessity of the people, was the greatest money-making scheme that had ever been invented. It is the second section of the charter granted to the Baltimore & Ohio Railway by the State of Maryland February 28, 1827.

The capital stock of the said Baltimore & Ohio Railway Company shall be three millions of dollars, in shares of one hundred dollars each, of which ten thousand dollars shall be reserved for subscription by the State of Maryland and five thousand shares for the city of Baltimore.

No shares were subscribed by either municipality. Belgium was the only nation to enter the field of actual building on government account. Others followed slowly. The following table will illustrate the growth and development of the idea of national ownership without explanation.

| Year. | No. of Countries Owning Railways. | Government Mileage. | Private Mileage |
|-------|--------------------------------------|------------------------|--------------------|
| 1830 | | | 206 |
| 1840 | 3 | 495 | 2,022 |
| 1850 | 4 | 470 | 14,184 |
| 1860 | 6 | 730 | 35,057 |
| 1870 | 14 | 3,500 | 75,216 |
| 1880 | 24 | 29,074 | 108,820 |
| 1888 | 31 | 64,801 | 153,283 |
| 1900 | 42 | 157,516 | 106,554 |
| 1905 | 47 | 217,175 | 99,951 |

In the above table the entire mileage of France is included in the government ownership column for the reasons stated before,

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that France has optional contracts embodied in the charter provisions which, together with the strict control and the fact that all the railways are built on the plans of government engineers, make the ownership of the private companies nominal only.

The following table gives very closely the government and private mileage of the world by countries, excepting England and the United States:

| Countries. | Private Mileage. | Government Mileage. |
|-------------------|---------------------|------------------------|
| Alsace-Lorraine | 17 | 1,079 |
| Argentina | 10,000 | 2,500 |
| Austria-Hungary | 6,931 | 19,694 |
| Baden | 134 | 1,053 |
| Bavaria | 605 | 3,772 |
| Belgium | 330 | 2,500 |
| Brazil | 6,265 | 4,939 |
| Brunswick | 119 | 274 |
| Bulgaria | 192 | 3,611 |
| Canada | 19,956 | 1,562 |
| Cape of Good Hope | 608 | 2,664 |
| Ceylon | | 579 |
| Chili | 1,453 | 2,201 |
| China | 2,870 | 470 |
| Columbia | 210 | 220 |
| Denmark | 855 | 1,131 |
| Dutch East Indies | 300 | 1,156 |
| Ecuador | 125 | 80 |
| Finland | 151 | 1,885 |
| France | | 24,849 |
| Germany | 1,248 | 31,000 |
| Greece | 700 | Small |
| Guatemala | 400 | Small |

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| Countries | Private Mileage. | Government Mileage. |
|---------------------------|---------------------|------------------------|
| India | 3,973 | 25,321 |
| Indo-China (France) | | 1,430 |
| Italy | 1,240 | 8,520 |
| Japan | 489 | 4,399 |
| Mexico | 6,319 | 5,890 |
| Natal | | 776 |
| Netherlands | 822 | 985 |
| New South Wales | | 3,390 |
| New Zealand | 113 | 2,391 |
| Nicaragua | 20 | 160 |
| Norway | 219 | 1,329 |
| Orange River Colony | | 1,500 |
| Queensland | | 3,092 |
| Roumania | | 2,295 |
| Peru | 302 | 884 |
| Portugal | 952 | 531 |
| Russia | 11,450 | 27,691 |
| Servia | 14 | 360 |
| Siam | 25 | 350 |
| African (except as above) | 1,000 | 5,000 |
| South Australia | | 1,805 |
| Spain | 8,520 | |
| Sweden | 5,072 | 2,559 |
| Switzerland | 582 | 1,524 |
| Tasmania | 168 | 462 |
| Turkey | 3,354 | |
| Venezuela | | 3,529 |
| Victoria | | 3,398 |
| West Australia | 665 | 1,568 |
| Total | 98,768 | 218,358 |

CHAPTER XXIII

PROCRASTINATION

WHEN all other arguments in favor of government ownership are accepted, the timid voter hangs back and says that he is afraid the finances of the railways will not be honestly handled by the government. How this sentiment can be indulged, in view of the extremely economical way in which the government handles the finances of the postal and other departments, it is hard to say. If a government postal clerk steals fifty dollars, he is sent to the penitentiary and the fact is heralded in a newspaper item under glaring headlines. At the same time the government keeps on paying three times a reasonable price for the carriage of the mails, and this is accomplished by the undue influence of the private railway managers.

The salary grabbing and credit mobilier

peculations, insignificant in comparison with the manipulation of railroad finances by the private managers, were sufficient to consign powerful statesmen to oblivion and defeat the Republican party in its halcyon days of supremacy after the war.

Every day the private railway managers pile up millions of dollars of fictitious values, upon which the people must pay interest, and this makes great national characters of the men who manipulate such affairs. Railway capitalization is a national debt in every sense that government bonds are. Upon this railroad debt the people are obliged to pay interest at twice government rates, and their credit is what makes the principal good. People talk upon this question as if the bonds and the interest thereon were to be paid by the private railway managers. It ought to be plain that the people pay the interest through the freight rates and their ability to pay the principal is all that makes the loan negotiable.

Could any political party retain power for one year and keep swelling the national debt upon the people as the private railway managers are now doing in the manipulation

of railway finances? In the last ten years railways have added over thirty thousand miles of new tracks, and have increased the capital and bond account \$3,619,000,000. This has increased the indebtedness of the people at the rate of \$100,000 per mile, when it is known that new construction costs less than half that amount. Could any political party do this?

When railways are consolidated, many millions are always added to the aggregate value of the combined roads, thus making a fictitious basis upon which the people are compelled to pay interest. Could any political party do this? Could any political party survive one election if it permitted the discriminations in favor of trusts in any small part of what exists to-day? If the railroads were in the hands of the government, all these things would immediately disappear. There might be a few defalcations—there might be some peculations, there might be some jobbing in letting of contracts, but it would be a mere bagatelle when compared with what is going on every day in private management.

A strange phenomenon relating to this

is the fact that political economists write books the argument of which is very strongly in favor of nationalization, but when they come to state their positions, they hesitate and begin to doubt. A prominent example of this is found in the *Heart of the Railroad Problem* by Prof. Frank Parsons. The book is devoted to an exposé of the discriminations and corrupt practices of private railway managers in this country. In the concluding chapters the learned author deals with private and government ownership elsewhere, but particularly in Europe. He shows conclusively that government ownership is and has been from the first an unqualified success wherever it has been tried; that the government-owned railways of Europe are more progressive and more honestly and capably managed than the private railways. He contends that discriminations and many other abuses have never been, and probably never can be, prevented except by public ownership and operation. When the reader is sure that the author can come to but one conclusion, and that in favor of immediate government ownership, he disappoints us and says: "This is a practical world, however,

and the practical facts are that the difficulties in the way of public ownership in this country at present are very great, and that much good can be accomplished by judicious regulation."

He quotes approvingly the following among other suggestions: that the long- and short-haul clause may yet be made effective; that the Interstate Commerce Commission should be given control over express companies, private cars, and fast freight lines, over companies which furnish railway equipment, those which furnish ice for refrigerator lines, and over all activities allied with the management of railways. He suggests that railways be permitted to pay no more for the use of cars belonging to special-service lines than they pay each other for the same service; that pooling should not only be legalized but made compulsory; that tapering and otherwise reasonable rates be enforced; that railway managers be prohibited from having any interest in large producers of traffic along their lines; that the railroads of this country be protected from the competition of Canadian lines; that all railroad moneys shall be received and paid out by government officers; that the government have represen-

tation on all boards of directors; that railways not obeying such regulations be taxed so high as to compel submission; that State laws be enacted in harmony with Federal statutes; and that the Railway Commissions, State and National, co-operate in controlling private railway corporations.¹

These it appears are a few of the more important regulations necessary to accomplish the desired object of successful railway control.

It is of course clear that the private railway managers would prefer government ownership to such efficient regulation as this. In fact, if the above terms were carried out, it would amount substantially to government ownership without any of the economies and minus many conveniences. At the very end of the book the author expresses doubts in language clearly founded on sounder logic and backed by stronger arguments than that which supports the conclusions above. Can there be any answer to the following paragraph as an argument in favor of immediate nationalization :

¹ *Heart of the Railroad Problem*, p. 253.

Is it fair to try and control in your own interest property that does not belong to you? It is fair to try and exert a sufficient control to secure impartial treatment of persons, places, and industries,—but can this be done without fixing rates, and if this is resorted to, will it not result either in squeezing the life out of railway enterprise, or in a vicious struggle for mastery, with new evasions of the laws and further intensification of political evils and corporate control of government? You will either deprive the owner of the right to determine the price at which the product of his plant shall be sold, thus controlling his profit and sapping his energy and incentive, or you will put a premium on political corruption by making it necessary for the railroad owner to control the government in order to control his business. You will check the development of railways and drive capital into industries where the owners are free to fix prices, or you will check the movement toward political purity. Public control in some form is absolutely necessary. The only question relates to form and degree. Is effective and adequate public control of transportation, with the unity, freedom, and hearty co-operation that should characterize all business ventures, possible without government ownership? And if not, is n't it true that the

economic and governmental changes necessary to make government ownership safe constitute the essence of the ultimate problem?

The question arises, What government changes are necessary to make the public ownership and operation of railways safe and successful? Is there anything wrong with our government? Before the Australian Commonwealth and the Swiss Republic had made such a signal success with their railroad operations, it was said that only a monarchical form of government could safely nationalize its railways. The learned author did not mean that any change in our form of government is necessary. He probably meant nothing more than that we should have greater efficiency in the civil-service department.

The next question is, What economic changes are necessary in order to justify the purchase of the railways? Does he mean that our national wealth is not sufficiently great to justify the venture? If so, then government ownership will never come about, for the growth of our national wealth can never keep pace with the inflation of railway

securities. The core of the objection is that this country is too corrupt in private life to be safely entrusted with the operation of the railways on government account.

The position is untenable. What have we in public life that is vicious that is not traceable to railway influence? Eliminate the railways from politics and government, and we shall have less need for an efficient civil-service than now.

We have the most enlightened citizens on earth. Our people are as honest as any in the world. The public conscience is awakening and growing stronger every day, even against the powerful influences of the private railway managers. If we are not capable of owning and operating the railways, the question arises, When shall we be? Will it be in ten years, or twenty years, or fifty years? Will it be when the railways by their rapidly increasing net revenue are able to pay dividends on all of the seventeen billions of watered stock and when it sells at par on the market? Will it be when they have added more watered stock as the basis of future operations of the same kind? Can we most surely purify our public life by

retaining the railways in politics? Shall we gain confidence in our ability to exercise a great public function by inaction? The answer must be No. Not one of those who doubt our ability to take over the railways now will be any more convinced at any given date in the future. The longer we put it off the stronger will these doubts become. It is a case of pure procrastination. It is the same feeling that a young lawyer experiences when he tries his first case, but he should know that he has to make a beginning sometime. It is the same doubt which impels a farmer to hold to a mortgaged farm until the interest bankrupts him, when he knows that he could sell his equity and purchase a farm clear of incumbrances in a newer country.

“Thus conscience doth make cowards of us all,
And thus the native hue of resolution
Is sicklied o’er with the pale cast of thought;
And enterprises of great pitch and moment,
With this regard, their currents turn awry
And lose the name of action.”

CHAPTER XXIV

NEED OF IMMEDIATE ACTION

THE people must realize at once the need of immediate change or suffer a tremendous and irreparable loss. Government ownership must come. It is in the line of the march of progress, and no Quixotic attacks can prevent its consummation in this country, though it may put off the day. This strong language might appear immoderate if it could not be supported, as it can be, by the highest authority.

In his open letter to the Governor of Minnesota, J. J. Hill, President of the Great Northern and allied railways, and the recognized greatest authority on railway operation in the world, discussed the car shortage prevailing at that time, and after stating the enormous growth of this country, and demonstrating that railway traffic has increased at the rate of eleven per cent. per annum for

the last two years, and railway mileage has increased at the rate of one and one-half per cent., he makes use of the following strong language:

There must be a realization by the country of the embargo on business and of the fact that the cause is insufficient railroad trackage. It will require the best thought and the best effort of this generation to avert the evil that now casts its shadow on farmer, manufacturer, and merchant, to arrest the progress of the paralysis that is laying its grip on the heart of commerce and destroying the wholesome circulation without which there can not be either life or growth in either individual or commonwealth.

This condition is not the growth of a day or a month or a year. It is the result of decades of private railway inefficiency. It is the result, in part, of the egregious error of lack of system in the original planning and construction of our railways. It is due, in part, to the monstrous evil of congesting traffic in the large cities, and to the criminal waste of conducting the clearance of freight on the most expensive terminal facilities obtainable. It is due in part to the fact

that cars are the individual property of several hundred different railway corporations and must be returned, and to a thousand other inconveniences of like character inseparable from private ownership.

Over and above all these difficulties, is the almost insurmountable one found in the problem of raising money to meet the emergency pictured in the language above. The financial depression which came upon us in the fall of 1907 was a drastic measure of relief, but the difficulties in the way of car shortage and the furnishing of increased facilities for the future will be upon us again in the near future. Here is what Mr. Hill said at the time upon the subject in the letter above referred to:

It is not by accident that railroad building has declined to its lowest within a generation at the very time when all other forms of activity have been growing most rapidly. The investor declines to put his money into enterprises under the ban of unpopularity and even threatened by individuals and political parties with confiscation or transfer to the States.

This is a fundamental and perhaps the greatest weakness of private ownership.

Enterprise can only be secured by giving the private management a free hand in stock-jobbing and the right to levy such freight and passenger taxes as will satisfy the greed of investors.

Before we can be sure that the private railway managers will meet our needs in the transportation lines, we must make them feel confident that we are not intending to interfere with their greed for profit. In the language of Mr. Hill in the same letter: "This feeling must be removed and greater confidence mutually established if any considerable portion of the vast sum necessary is to be available for the work."

The situation is startling. It means that if the present movement to control railways is not entirely abandoned, the private managers will not be able to raise any considerable portion of the money necessary to meet the demand of our commerce for transportation.

But the greed of the private investor is always augmenting. What could the railways ask more than they enjoyed during the nineties, and yet this condition of affairs was coming upon us even at that time, if not for long before.

It is idle to ask what could be accomplished by giving the private railway managers what they want. The people can never be brought to believe that relief from that course is obtainable or desirable. Do we want to secure adequate railway facilities by a complete surrender to the private corporations? The answer to such a proposition must be in the negative.

In the letter Mr. Hill recommends certain economies which the private railways of course can not put in force. He says the heavy transfers must be made away from the large cities. This has been a necessity for a great many years, but on account of the scramble for business between themselves it is impractical. The railways of the country could by a little expense and effort be largely increased in their efficiency. We have seen that the railways of Belgium and France were built on the plans of competent engineers. If our government should take over the railways at this time, their capacity could be nearly doubled by slight additions and the systematic operation of the whole as one system. By eliminating all dividends and the paying of a reasonable interest on

the purchase price of the railways, we have seen that \$500,000,000 could be devoted a year to improvements. By doing away with all leakages, and by the economy of operating the whole as one system, the government could probably either reduce the rates materially or increase the net amount which could be set aside for improvements. This would be more than ample to meet any emergency that is likely to occur in the near future.

No government has ever been known to fail when it wants to borrow money for the building or the purchase of railways. There was some talk, when Switzerland purchased its railways, that so large an amount of money, \$120,000 per mile, could not be secured upon her credit, but when the time came, that little country found it very easy to borrow the money for a profitable investment like a railway.

It seems strange that anybody should doubt the ability of the government to purchase the railroads by the whole people when they are owned by a few men upon Wall Street. In the beginning it was believed that railway construction was too large an

undertaking for private capital, but there never was any doubt that it was an easy matter for the whole people to accomplish acting through their government.

These are the conditions confronting us, and the government should take over the railways at once. Like France and Belgium we should set the best engineers at work to devise the most economical and efficient plans for increasing the railway facilities to meet the present needs and anticipate the future. With the information at hand the Interstate Commerce Commission could supervise this work and complete it in a very short time. The government should at once give the people of this agricultural country a change of rates tapering from every coast to the centre. It should make the export and home consumption rates at least the same, or reverse the present condition and make the home consumption rate lower than the export rate. It could easily do this for all rates could be put far below the present export price. It should make the rate on raw products, like wheat, the same as that on manufactured articles, like flour. It might be advisable to make

the rate lower on the manufactured article in order to encourage home milling and manufacturing. The results which government ownership would produce in this country can not be foretold.

All the progress which we have made under present conditions suggests wonders as possible when the railroads of the country shall be economically and justly managed. Just what reduction of rates could be made is problematical, but it would appear that a reduction of thirty to forty per cent. would be practical at once. Our rates now are about the same as those in Germany, and German roads cost more than twice as much as ours. Then under the same conditions rates here could be lowered fifty per cent. What the effect would be on our farming industry if all farm products were shipped to the nearest seaport on rates tapering reasonably to the country's centre, and on the whole thirty per cent. lower than to-day, no one can predict.

Every thinking man will concede that agriculture is our greatest industry and the principal source of our national wealth. The word is used in the broadest sense,

including fruit growing and stock raising. Under private ownership of railways, agriculture is favored the least of all industries. Rates on agricultural products are low, but this is a matter of necessity. Private railways put rates on agricultural products just at the living point. If rates were higher, the railways would lose, for the products of the farm would not move. Under government ownership freight rates on farm products might not be lowered any more in proportion than rates on other commodities, but a reduction of thirty per cent. would mean eight to ten cents on every bushel of wheat exported from Iowa, Nebraska, and surrounding States.

Immediate action in the matter of nationalization of our railways is imperative, and the dangers of delay can be recapitulated as follows: Every year we put it off will add hundreds of millions to the price we shall have to pay for the properties. The prosperity of the railways is rapidly putting a higher price on watered stock. If we wait until the private railway owners provide additional equipment, we shall not only have to put up with the inconvenience in

the meantime, but be compelled to pay for the extravagance of watered stock resulting from the operations. We shall forever be plagued with the unsystematic character of any improvements that are made, for they will be upon no more systematic plan than the construction of the past. If the government should take hold now, additional railway facilities can be made upon a plan which will remedy many of the defects now existing. Every year we put it off the railways will become stronger politically. Every delay means more vicious methods in elections and legislation; every year we shall find a lessening public conscience on the subject. Every year our population will be more congested in the large cities and we shall have vast areas of undeveloped agricultural territory unpeopled. One of the greatest needs of the times is smaller farms and more scientific farming, but this can never come under the present discrimination against agriculture. It can come only under government ownership. Every year we procrastinate will bring an increasing difference in the conditions of our people. In a short time, with the assistance of the private railways,

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the trusts will be in control of every industry, except possibly agriculture and farm labor. Every year the centralization of wealth will be more complete. A movement toward government ownership is everywhere more active each year. The activity challenges our attention and grave consideration, and if the progress of the world in this respect is right, prompt action by our nation will be the part of wisdom.

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